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Sound B

By Rade Musulin

Once upon a time, I was a traditional actuary, worried about rate filings, out-of-balance statistics, and inadequate loss reserves. Hurricane Andrew changed my life radically; I traded my pocket protector for a cell phone and became a lobbyist and media spokesman—euphemistically known as a public affairs officer.

One of my first memories of the world of politics was a quote, attributed to a colorful (now retired) public official who proclaimed, “Damn right my campaign money’s tainted, cause there ‘taint enough of it!”

I had been welcomed to the world of political fundraising. Heck, I thought, this is what I’ve been doing for years, as I listened to some of my management team comment about how I was promulgating tainted rate levels because “there ‘taint enough return on equity.”

I soon learned, however, that the move would be very difficult, for there was little in my formal actuarial education that prepared me for the world of the media and public policy, where sound bites replace megabytes and “fuzzy math” takes on a whole new meaning.

Ten years later I’m still in public policy work, and I like to think I’ve made a few positive contributions to the cause. The work is often frustrating, particularly for someone who has been trained to think logically and forced to operate in a world that

emational tools, but our examination process encompasses most aspects of the broader insurance process. A qualified actuary is well suited to examine the big-picture issues affecting the insurance industry.

And the insurance industry itself, notwithstanding its occasionally dismal perception among some segments of the public, is an integral part of our nation’s economic system. It adds value to our nation’s wealth by placing an economic cost on the risks our citizens face and then diversifying those risks throughout the world’s financial system. By pricing risk, which is one of the core skills of the actuarial profession, we help millions of consumers make rational economic choices, such as whether it’s cost-effective to drive safely or to retrofit a home against natural disasters.

#### A Stake in the Process

Insurance is one of the most highly regulated businesses in the country. State regulators exercise tremendous control over in-

# ites and Fuzzy Math

How one actuary in Florida makes sure that actuaries get a place at the table in the formulation of public policy.

often seems totally illogical. But public policy is at the core of our work as actuaries, for the political system dictates the rules under which the economic system operates.

Virtually every major interest group in our society devotes substantial resources to public relations and government affairs. The American Academy of Actuaries is the public policy arm of the actuarial profession. It represents us before a host of outside audiences, including the media, Congress, the administration, the National Association of Insurance Commissioners (NAIC), and the National Conference of Insurance Legislators (NCOIL), among others. Through its website and publications, the Academy offers a multitude of relevant, nonpartisan, and critically important public policy analysis on issues ranging from Social Security to natural disaster insurance.

Actuaries are an important part of the insurance industry’s skill base. Not only are we trained in statistics and other math-

insurance pricing, products, and marketing practices. In many states, regulators examine every sentence in every policy and every charge for even minor coverages, particularly in personal lines. Contrast how insurance products are built and sold with automobiles.

Imagine if a major automobile maker had to go through a multi-month process to secure prior approval for the cost of the stereos it installs as optional equipment. Or if a regulator could force every car dealer for a given company in a state to sell every car and every option at exactly the same pre-approved price.

Further, regulators are also deeply involved in monitoring insurer solvency and market conduct. Various government entities sometimes mandate what coverages insurers must offer, particularly in health insurance.

Aside from regulation, there are a host of government programs that closely interact with private insurance. On the fed-

# Long disclaimers and caveats will never make it into

eral level, these include Social Security, Medicare, federal crop insurance, and the federal flood program. On the state level, there are scores of residual market pools, Fair Access to Insurance Requirements plans, and catastrophe facilities.

The nature of the relationship between the insurance industry and government is certain to undergo major changes in coming years. Financial modernization will likely result in new types of federal oversight and substantial changes in the way state regulators interact with insurers. Speed to market and the ability to innovate will become key challenges that state regulators and insurers will have to address.

## Waiting to Happen

Another looming issue involves the insurance system's ability to cope with huge disasters, either natural or man-made, as we are about to learn in the aftermath of the terrorist attacks on New York and Washington. The day will come when a major event causes losses many times those of Andrew, and the post-event fallout will be severe for insurers, consumers, and the nation's financial system.

As with future challenges in our health care and retirement systems, demographic changes are creating huge future liabilities that will need to be funded. In the case of natural disasters, the demographic problem is one of millions of consumers moving to hurricane-prone beaches or onto earthquake faults. The insurance industry and the government face the choice of planning for these problems now, before the crisis, or waiting until we suffer the unexpected financial heart attack when the earth shakes, the wind blows, or fanatics attack our infrastructure.

The actuarial profession can make a major contribution to helping our society cope with these and other challenges that will emerge in coming years.

We're already making a mark through the efforts of the Academy, its staff, and member volunteers. In the first half of 2001, the Academy was involved with many major public policy issues:

- n Casualty: Natural disasters, tort reform, financial reporting, asbestos, automobile insurance territorial rating, and medical malpractice.

- n Financial reporting: Banking reform, financial modernization, fair value accounting, international accounting standards, and risk-based capital.

- n Health: Coverage for the uninsured, Medicare reform, managed care reform, genetic testing, and prescription drug coverage for seniors.

- n Life: Financial services integration, international accounting, mortality table updates, and liquidity and risk management.

- n Pension: Cash balance issues, strengthening private pension plans, and Social Security.

Many Academy members are also working independently on insurance-related issues at the state level. For example, I'm based in Florida, and I'm currently chairman of the Florida Insurance Council, the state's largest insurance trade organization. This year I've been involved in many significant issues, including:

- n Automobile insurance reform: A statewide grand jury found evidence of serious fraud and abuse in Florida's no-fault insurance system. Actuarial involvement included helping to quantify its costs and potential savings to consumers if it could be controlled.

- n Florida Hurricane Catastrophe Fund: The FHCF provides \$11 billion of hurricane capacity to Florida's property insurance market. The fund relies on actuaries to assist with data collection, rating plans, financing programs, and loss reimbursement rules.

- n Statewide building code: In 2000, the Florida legislature implemented one of the toughest building codes in the nation. Now, actuaries must find ways to comply with statutory mandates to offer discounts for homes built to the new code, and how to get catastrophe models to reflect the correct loss costs.

- n Integration of catastrophe model output and historical data in ratemaking: I was asked by a state representative to propose a solution to complaints that historical experience was not being used in property ratemaking. Drawing on our professional standards, I proposed that consideration of historical insurance data and the use of computer models be consistent with applicable Standards of Practice of the American Academy of Actuaries.

- n Health insurance mandates: Each year the legislature considers many new mandated health benefits. Almost all have laudable objectives but also entail substantial costs. Actuarial involvement helps legislators understand the costs associated with such mandates.

Actuaries in other states have been involved in public policy debates over toxic mold exposure under property insurance policies, the use of credit in automobile rating, and the cost of mental health parity mandates. Actuaries also played a key role in developing many of the rules for statutory accounting codification recently implemented by the NAIC.

The above list is but a sampling of the many issues that affect insurance and where actuarial expertise can make a valuable contribution to public policy discourse.

## Blessing and a Curse

Despite the large list of issues, however, few actuaries actually work day to day in the world of political lobbying and media relations. It can be a strange fit. Many reporters don't have a clue about what actuaries do, and the ways of media professionals can take some getting used to. Press coverage of my assumption of the FIC chairmanship is a case in point.

"One of the first things we learned was the meaning of the somewhat unfamiliar designation initials carried by Rade T. Musulin, ACAS, MAAA," the *Florida Underwriter* wrote. "The first one stands for 'Associate, Casualty Actuarial Society' and the other means he is a 'Member, American Academy of Actuaries.' Musulin, you see, is that rarest of rare birds in insurer trade group leadership—an actuary!"

My work in the public policy arena reflects a larger transformation occurring in the actuarial profession. Like many oth-

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er professions in our society, actuaries are adapting to today's rapidly evolving economy by supplementing their traditional job functions with new ones. While many actuaries still focus on the important functions of ratemaking, loss-reserve analysis, examination of statistical data, or construction of mortality tables, others have branched out into "nontraditional" areas such as pricing weather derivatives, assessing e-commerce risk, or building catastrophe models. I've applied my actuarial skills to public policy development, lobbying, and media relations.

I've found my actuarial training to be both a blessing and a curse in my nontraditional roles.

On one hand, actuaries are among the most well-rounded professionals in the insurance industry. From a base of complex mathematical skills, actuaries are usually proficient computer programmers and conversant in most aspects of the insurance system, able to provide a broad perspective reflecting many disciplines.

On the other hand, actuaries are trained to be deliberative and analytical. Some nonactuaries believe that the profession is verbally challenged; having difficulty communicating in ways that are comprehensible to most people in a timely fashion.

## English, Not Greek

The first major lesson I learned in public policy work was the importance of the press to the political process. It would be difficult at best to have an impact on the development of public policy without having a good relationship with the media. Success in that arena, like any other, requires training, for the media operates in ways very different from an Academy practice council.

While almost all the reporters I've dealt with are trying their best to accurately report the story they've been assigned, few reporters have more than a cursory understanding of actuarial concepts and principles. It's not uncommon for an editor to reassign a reporter to insurance work from the crime beat, though most people I've dealt with in the media have some business reporting experience. However, I've found that I'm almost always the first actuary any of them have actually spoken to.

The press needs sound bites, not megabytes. Effective communication with the press requires actuaries to become translators, transforming complex concepts into bite-sized sentences in English, not Greek. A corollary of this concept is that long disclaimers and caveats will never make it into the story, so the message had better be clear and unambiguous.

Another major lesson I had to learn was "speed to market." Reporters operate under tremendous pressure and tight deadlines; they often have to collect facts and write stories in a matter of minutes. The actuary's normal tendency to deliberate and consult with a committee of peers is not likely to be effective in this environment.

Finally, I (and my management) had to thicken our skins when stories came out far different from what we had intended. When an Academy practice council issues a monograph, the document is prepared over many months with multiple lay-

ers of peer review. In the world of the media, a 20-minute interview may get 20 words in a story, and what comes out sometimes bears little resemblance to the message points you carefully cover in the interview.

I recall one instance where I'd testified before a Florida Senate committee on the subject of whether the state should build a public computer model to estimate catastrophe losses. I testified that any such model should be held to the same standards that private sector ones were; otherwise the public model would have no credibility in the financial markets.

I was shocked later when a newspaper story appeared quoting me as saying that public models would not be credible in the financial markets.

The Academy found itself in a similar situation during the 2000 presidential campaign. On Oct. 26, 2000, the Academy issued a press release saying, in part: "With Nov. 7 just a dozen days away, the nonpartisan American Academy of Actuaries today provided to the public analyses of the Bush and Gore Social Security and Medicare reform proposals by two of its most esteemed members. The candidates' proposals were labeled as 'incomplete, potentially misleading, and leave many questions unanswered...'"

Both campaigns selectively used parts of the Academy's study to bolster their public positions, without presenting the com-

plete balanced and detailed analysis. The media, on the other hand—including all the major network and cable TV stations—pretty much got it right. They reported the Academy's nonpartisan message fairly and accurately, something that doesn't always happen, particularly with an issue as complex and touchy as Social Security reform.

Even so, some Academy members were surprised by this, and perhaps felt that we were mistaken to have become embroiled in the debate at all. But things like this are a normal part of the political process, and if we're going to be a part of that process, we need to be prepared to accept the realities of political discourse. No one, not even the president of the United States, can control the news.

### Not Going to Fly

Dealing with elected officials and their staffs also presents me with challenges similar to those I've encountered with the press. As with the press, brevity and clarity are critical. But more important, I've had to learn that successful public policy development involves a blend of political and actuarial sciences. Often the "correct" answer isn't necessarily the "right" one. I've had to learn to use the tools I mastered in my actuarial training to fashion practical solutions to politically difficult problems.

An excellent example of this involved the need for develop-

ing a strategy to fund losses from natural disasters in Florida after Hurricane Andrew. In 1992, it was abundantly clear that the insurance industry lacked the capacity to provide enough coverage to meet consumer demand at anything remotely resembling pre-Andrew price and coverage levels. What was the right way to handle this seemingly intractable problem?

The textbook economic answer was to increase prices and decrease coverage until such time as supply and demand were in balance. This strategy would create the proper economic incentives for consumers to mitigate future losses and reduce risk.

Unfortunately, that solution was, to borrow a phrase often used by lobbyists, "aerodynamically unstable" from a political perspective. What was needed was thinking "outside the box," to find ways to reduce costs to the system and address supply-and-demand imbalances at a politically acceptable level of consumer disruption.

The state of Florida, with input from actuaries, enacted many measures to do just that, including the creation of a state catastrophe fund to provide a low-cost source of capacity and the enactment of a tough new building code to reduce future costs to the system.

As I noted earlier, our nation faces a host of vexing problems, including health care, retirement funding, and funding for natural disasters. Actuaries can play an important role in fashioning solutions to make life better for both today's consumers and future generations. An important part of that process will be working through the media to educate the public about the issues and possible remedies.

The actuarial profession should not delegate the work of interacting with the media to public affairs specialists with little training in our areas of expertise. It may well be easier to train actuaries to communicate better than to train others to deliver our messages for us. But make no mistake, communicating effectively takes work, practice, and expertise. Never assume that talking to the press, politicians, or the public is just like talking to your board of directors or an Academy practice group.

The American Academy of Actuaries is the profession's voice in public policy. As noted above, the Academy is actively engaged in a number of major initiatives to help shape the public policy debate on issues critical to our country's future. However, the Academy's resources and volunteer base are limited. I would encourage every member of the Academy to get more involved with public policy, even if the action is as simple as volunteering to speak at a local CPCU luncheon or community group.

Public policy development is but one of many exciting new areas where the actuarial profession can apply its skills. There's plenty of work to be done for those willing to expand their horizons to tackle new problems.

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