Actuarial Board for Counseling and Discipline

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WHISTLEBLOWING – A CASE STUDY

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Case Study:
A Tale of 6 Actuaries in 4 Acts

Scene 1:

- ***Young Pricing Actuary*** **is employed by Huge Insurance Group. He is assigned to Workers Insurance Company to set their prices.**
- **Workers Insurance is 90% Workers Comp and 90% in solid state – it is a leading WC market in that state.**
- **When he develops his losses to ultimate, he notice that his reserves for the three years he uses for prices are all far larger than the reserves on the statutory Annual Statement of Workers Insurance Company.**

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Scene 1(continued):

- ***Young Pricing Actuary*** **has no responsibility whatsoever for loss reserves.**
- **They are set somewhere in the Corporate Actuarial department of Huge Insurance Group in the Head Office.**
- **He doesn't even know who is responsible.**
- **What should *Young Pricing Actuary* do?**

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Scene 2:

- **It is several years later. Workers Insurance Company is consistently profitable (because *Young Pricing Actuary* has used his own reserves) but looks outrageously profitable because HQ continues to post severely inadequate reserves in the Annual Statement.**
- **Huge Insurance Group has decided to sell Workers Insurance Company.**
- **Healthco is interested in buying it – they are 95% health insurance, 85% in solid state – it looks like a good match.**

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Scene 2 (continued):

- ***Healthco's health actuaries*** **like the match, but wisely recommend that Healthco Management hire *Comp Consulting Actuary* to do due diligence on the WC business – it is not Health + disability.**
- **As soon as *Comp Consulting Actuary* starts his due diligence he is shocked to find reserves that seem to be low by $hundreds of millions. More than a year of revenues! More than 70% of Surplus!**
- **He goes straight to *Young Pricing Actuary.***
- **What should *Young Pricing Actuary* do?**
- **What should *Comp Consulting Actuary* do next?**

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Scene 3:

- ***Young Pricing Actuary*** **in practice confirmed** ***Comp Consulting Actuary*****'s findings**
- ***Comp Consulting Actuary*** **in practice requested a meeting between the investment bankers, Healthco Management, Huge Insurance Group, and the consultants.**
- **The leading representative for Huge Insurance Group happens to be** ***Big Exec Actuary.***
- **When the situation is described to him, what does** ***Big Exec Actuary*** **do?**

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Scene 4:

- **The worst fears about the reserves were confirmed.**
- **But the profitability for each of the past five years was also confirmed.**
- **What does Comp Consulting Actuary do?**
- **What do Healthco's Health Actuaries recommend to management?**

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Postlogue:

- **In the actual situation that inspired this case study, as far as I know, no actuary ever requested counseling from the ABCD (but these things are confidential) --**
- **Nor was any actuary reported to the ABCD for any alleged violation.**
- **Should anyone have sought counseling?**
- **Should anyone have been disciplined?**