

Professionalism: A Foundation That Will Serve You Well

Darrell Knapp, MAAA, FSA

Secretary-Treasurer, American Academy of Actuaries

Thomas Wildsmith, MAAA, FSA

Past President, American Academy of Actuaries

Disclaimer

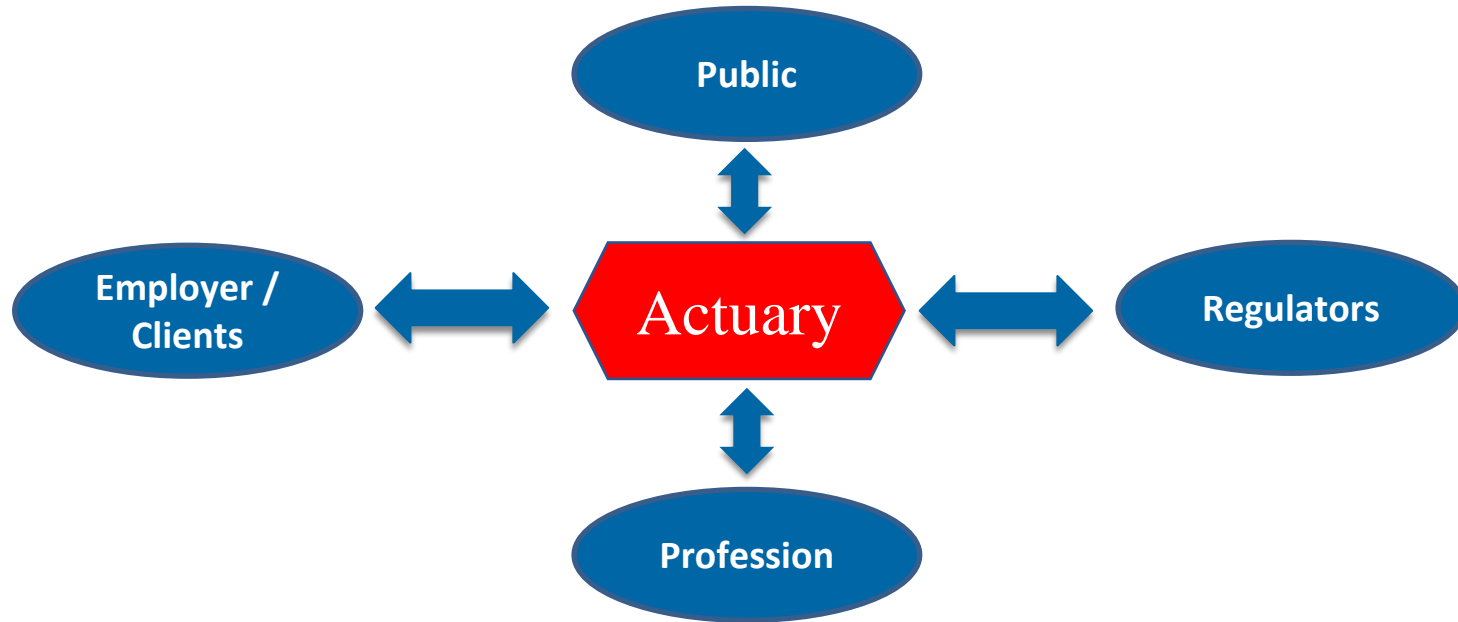
Please note: Our statements and opinions are our own and do not necessarily represent the official statements or opinions of the Actuarial Board for Counseling and Discipline, the Actuarial Standards Board, any boards or committees of the American Academy of Actuaries, or any other actuarial organization, nor do they express the opinions of any employer.

Agenda—Part 1

- What Is Professionalism?
- The Code of Professional Conduct
- The Web of Professionalism
- Case Study Discussion
- Academy Resources
- Q&A
- Break

What does it mean to be a professional?

Understanding Our Professional Obligations



Putting the Public First

Our standards and disciplinary processes are necessary to assure the public that we can, as a profession, be trusted. They are why the Academy was created; they were and are necessary for U.S. actuaries to be recognized as a self-regulating profession.

What This Means



Actuaries may perform actuarial services only when qualified to do so.



Actuaries must follow applicable standards wherever they practice.



When Code and Law conflict, follow the Law.

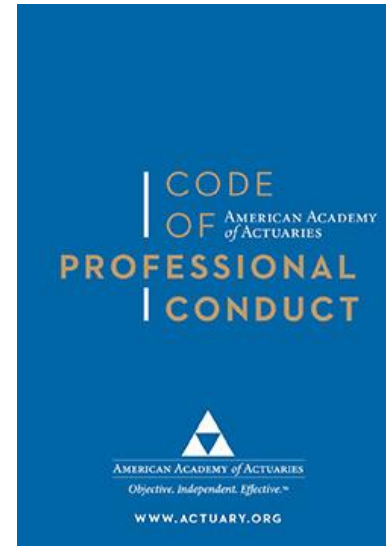


Actuaries who commit material violations are subject to counseling or discipline.

How Do We Meet These Obligations?

It All Starts With the Code

“The *Code of Professional Conduct* sets forth what it means for an actuary to act as a professional. It identifies the responsibilities that actuaries have to the public, to their clients and employers, and to the actuarial profession.”



The Web of Professionalism



Building Out From the Code:

U.S. Qualification Standards

Actuarial standards of practice

Counseling and discipline

Building a Culture of Professionalism

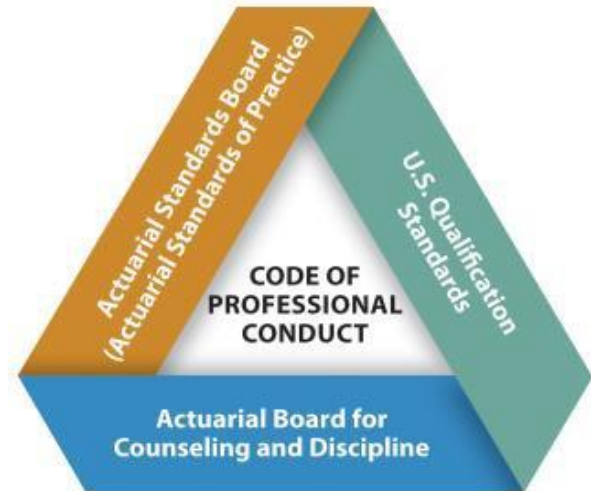
Modeling Professional Behavior

Tone at the top—behavior of management

Behavior of peers

Profession-wide ethical practices

Professionalism in Action: Dec 2017



U.S. Qualification Standards

USQS Are Rooted in Precept 2 of the Code

PRECEPT 2. “An Actuary shall perform Actuarial Services **only when the Actuary is qualified to do so** on the basis of basic and continuing education and experience, and only when the Actuary satisfies applicable qualification standards.” *[emphasis added]*

- “It is the professional responsibility of an Actuary to **observe applicable qualification standards** that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services and to keep current regarding changes in these standards.” *[emphasis added]* (Annotation 2-1)

USQS: General Structure

Introduction (including definitions)

General Qualification Standard

- Basic Education and Experience Requirements
- Continuing Education Requirements

Specific Qualification Standards (when necessary)

Changes in Practice and Application (general and specific)

Acknowledgment of Qualification (suggested language)

Recordkeeping Requirements

Revised USQS

The amended *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* took effect January 1, 2022

- Applied to actuaries issuing statements of actuarial opinion (SAOs) starting on January 1, 2023

Such actuaries had to meet the continuing education (CE) requirements in the 2022 USQS before issuing any statement of actuarial opinion in 2023

U.S. Qualification Standards-SAO

USQS [no change from 2008 USQS] defines a **Statement of Actuarial Opinion (SAO)** as having two components:

- (i) an opinion expressed by an actuary in the course of performing actuarial services; and
- (ii) an opinion that is intended by the actuary to be relied upon by the person or organization to which it is addressed.

PROFESSIONALISM COUNTS

An SAO by Any Other Name

By ANDREA SWEENEY
Chairperson, Committee on Qualifications



AM CERTAIN THAT WILLIAM SHAKESPEARE was not thinking about the US Qualification Standards (USQS) or Statements of Actuarial Opinion (SAOs) when he penned Juliet's famous line "What's in a name? That which we call a rose / By any other word would smell as sweet." Neither was Gertrude Stein when she declared in 1911 that "There is no rose in a rose is a rose." But the principle underlying these famous sayings is one that actuaries can learn from: Whether an opinion expressed by an actuary is an SAO depends on the substance of the opinion, not on what the actuary calls it.

Precept 3 of the Code of Professional Conduct (Code) states that an actuary "shall perform Actuarial Services... only when the Actuary satisfies applicable qualification standards." According to the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States, "Actuaries who issue Statements of Actuarial Opinion when rendering Actuarial Services in the United States are required by the Code... to satisfy these Qualification Standards." For this reason, any actuary who is subject to the Code should understand what an SAO is.

The USQS provides a two-prong definition of an SAO. It is (i) "an opinion expressed by an actuary in the course of performing Actuarial Services," and is (ii) "intended by that actuary to be relied upon by the person or organization to which the opinion is addressed." The USQS, and the answers to Frequently Asked Questions (FAQs) provided by the Academy's Committee on Qualifications (COQ), contain important information on how to identify the elements of the SAO.

How have these two prongs been interpreted? First, an SAO "must be based on actuarial considerations," and not merely involve numbers or calculations. FAQ 17, for example, explains that if an actuary states "the health care costs you have experienced in 10 percent" based on compiled data alone without any actuarial considerations, the statement is not an SAO. By contrast, if an actuary states that "the expected health care trends for your commercial business for next year is 10 percent," the statement would likely be an SAO because it involves actuarial considerations.

Second, the actuary must intend for the opinion to be relied upon by the person or organization to which the opinion is addressed. If the actuary does not intend for the actuary's principal to rely upon the opinion, the actuary must clearly state this. However, even labeling an opinion "not to be relied upon" or a "draft" does not prevent reliance. Appendix 1 states, "If there is a reasonable likelihood that the Principal will rely on the draft regardless of intent, that is an indication that the draft is an SAO." If an actuary holds a position that is "non-actuarial in nature" or has "non-actuarial aspects," the USQS are not intended to apply to oral or written statements issued "by virtue of the positions they hold and not because they are actuaries."

As the parsing of the elements of an SAO illustrates, the definition of an SAO in the USQS is very broad. SAOs can be written or oral. They can include internal or external company communications. They can be provided for compensation or gratis. They do not depend upon the status of the actuary as "working" or "retired." Appendix 1 of the USQS describes SAOs and lists some examples of commonly issued opinions and work products and whether they are likely to be considered SAOs. Appendix 1 also describes generally what types of actuarial work involving government or other public sector actuaries may be considered SAOs.

As former Academy President Tom Wildsmith summarized, "Some might misunderstand this term [SAO] to be limited to a formal statement filed with a regulator—nothing could be further from the truth. A simple rule of thumb is that if I perform work that someone else relies on because I am an actuary, then the USQS likely apply."

Given the breadth of the definition and the fact that issuing even a single SAO requires compliance with the USQS, actuaries should ensure that they meet the USQS requirements. As the COQ stated in FAQ 2 regarding the interpretation of "any areas," "the Committee recommends that practicing actuaries endeavor to meet the USQS rather than expending time and energy trying to find interpretations that support an exemption from the USQS." An SAO is an SAO is an SAO is an SAO. ■

Footnote:
1. RMOI and JUNE, Act 1, Section 2.
2. From the poem "Sonnet 130."
3. USQS, Section 1.

1. USQS, Section 1.
2. Appendix 1, 105.
3. Appendix 1, 105.

1. USQS, Section 1.
2. Contemporary, September/October 2016, p. 24.

www.actuary.org **ACTUARIAL UPDATE MAY 2018** 6

Attestation Form

- ❑ <http://attest.actuary.org>
- ❑ Show how you meet
 - ❑ General Requirements
 - ❑ Specific Requirements
- ❑ Printable
- ❑ Can complete multiple attestations for multiple SAOs
- ❑ Can download complete attestation package (form and attachments)



**Welcome To The U.S. Qualification Standards
Attestation Form**

Please log in above with your username and password to create or update your current and past attestations.

USQS Webpage



PROFESSIONALISM

PUBLIC POLICY

MEMBER LOGIN

ABOUT US

MEMBERSHIP

PUBLICATIONS AND RESEARCH

EDUCATION AND EVENTS

U.S. Qualification Standards

The U.S. Qualification Standards were revised effective Jan. 1, 2022, to broaden their scope and strengthen the CE requirements. The standards were developed by the Academy Committee on Qualifications and approved by the Board of Directors.

U.S. Qualification Standards
(in effect as of Jan. 1, 2022)

New USQS

FAQs on the U.S. Qualification Standards

FAQs

"Which CE Requirements Apply to Me?" infographic applicable to 2022 USQS
(March 2022)

Submitting Additional Questions
(use the online form to submit your additional questions about the U.S. Qualification Standards)

Ask a Question

History of U.S. Qualification Standards



Actuarial Board
for Counseling
and Discipline



Actuarial
Standards Board

QUICK LINKS

- Code of Professional Conduct
- U.S. Qualification Standards



ACTUARIAL STANDARDS BOARD

Actuarial Standards of Practice

Actuarial Standards of Practice

Precept 3 of the *Code of Professional Conduct* states in part that:

“An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy **applicable standards of practice.**” (emphasis added)

ASOPs provide:

- Guidance to practicing U.S. actuaries when they do the work; and
- Documentation of then-current practice in the event of a later dispute



Actuarial Board for Counseling and Discipline

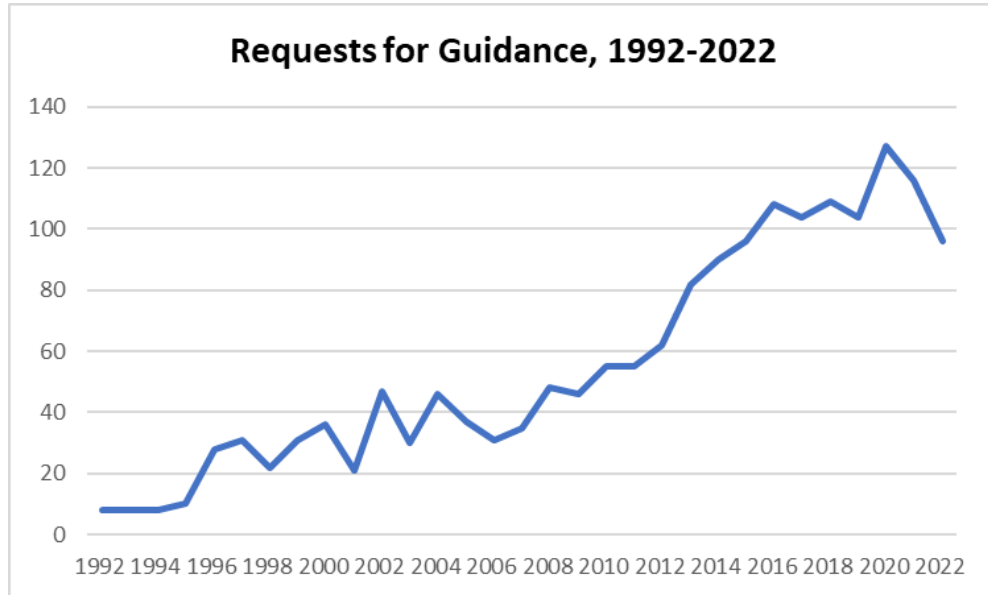
Actuarial Board for Counseling and Discipline

Two primary functions

- ▶ Respond to requests for guidance (RFGs) on professionalism issues
- ▶ Consider complaints about possible violations of the Code

ABCD Requests for Guidance

There has been a significant increase in RFGs over the years.



ABCD Cases by Practice Area

		2018	2019	2020	2021	2022
New	Casualty	1	8	2	28	7
	Health	5	1	5	6	1
	Pension	3	4	11	12	4
	Life	4	4	15	3	1
	Total	13	17	33	49	13
Resolved	Casualty	1	12	1	28	8
	Health	7	2	1	7	1
	Pension	11	2	10	22	4
	Life	3	4	12	6	1
	Total	22	20	24	63	14

Major Issues by Precept (2022)

Major Issue Alleged	Discipline	Counsel	Dismiss	Total
Precept 1: Failure to act with integrity	2	2	6	10
Failure to perform services with competence	1	1	3	5
Failure to uphold reputation of profession	2	2	10	14
Precept 2: Performing work when not qualified		1		1
Precept 3: Work fails to satisfy an ASOP		1		1
Precept 9: Disclosure of confidential information		1		1
Precept 10: Failure to cooperate with other actuary	1		1	2

Academy Public Discipline Notices

The Academy's Public Discipline [webpage](#) contains information about persons who have been publicly disciplined by the Academy.

- ▶ 13 expulsions
- ▶ 11 suspensions
- ▶ 14 public reprimands

Academy Public Discipline Notices

- Over the years, notices have provided ever greater details of underlying conduct
- Common reasons:
 - Criminal behavior (e.g., fraud)
 - Code violations ranging from ASOP non-compliance (e.g., “skill and care”) to behavior reflecting adversely on profession, to wrongful use of professional designation, non-cooperation with ABCD

Working Through Ethical Dilemmas

What Challenges Might We Face?

1. Pressure to get the “right” result?
2. Temptation to exaggerate our qualifications?
3. Projects that we don’t really know how to do?
4. Seeing other actuaries doing things that seem inappropriate?

Working Through Ethical Dilemmas

Am I compliant?

Am I being transparent?

Am I upholding the reputation of the profession?

Is it the right thing to do?

When in doubt, always look to the Code.

Case Studies

Case Study #1

FACT PATTERN: Subject Actuary prepared “fiscal notes” setting forth the cost of certain proposed state legislation relating to public pension benefits. The fiscal notes, as prepared for clients and ultimately submitted to legislators, failed to identify the data, assumptions, and other valuation elements upon which the notes were based, and also lacked sufficient information that would allow another pension actuary to opine on the reasonableness of the fiscal notes.

QUESTION: Subject Actuary was disciplined. Why?

Case Study #2

FACT PATTERN: Subject Actuary also made statements published in a newspaper suggesting that his actuarial work lacks a scientific basis, and that his conclusions are influenced by the desired outcomes of his clients.

QUESTION: Subject Actuary was disciplined. Why?

Case Study #3

FACT PATTERN: You are asked by a principal: “Without performing any calculations, what do you expect next year’s reserves to be?”

QUESTIONS:

1. What should you be thinking?
2. Can you provide a meaningful answer?
3. Will the principal rely on your information?
4. Do you expect the answer to be considered an Actuarial Communication?
5. Is the conversation being recorded?
6. What Precepts and ASOPs come into play?

Case Study #4

FACT PATTERN: Your boss is preparing for an important meeting and has asked for a quick projection of reserves for the next 10 years. The tools you have available would allow this calculation, but it will take a couple of weeks. When you explain this, your boss asks you to just do something “quick and dirty,” because the meeting is in two days.

QUESTION: What, if any, are the issues under the Code of Professional Conduct?

Case Study #5

FACT PATTERN: I. M. Buzzed is a recent Associate who is a member of the Academy. He has little free time between work and his exams, but gives himself Friday nights off to relax. On a recent Friday evening he had an accident while driving home after having a few drinks with colleagues at the bar. His blood alcohol was slightly above the legal limit. When combined with fatigue from a long week, he was significantly impaired, and he was clearly at fault in the accident. Unfortunately, the driver of the other vehicle died at the scene.

QUESTIONS: Is there a potential violation of upholding “the reputation of the actuarial profession” under Precept 1 of the Code of Professional Conduct, even though Buzzed’s accident was part of his personal life, and had nothing to do with his profession or his job? Does it matter whether Buzzed is identified as an actuary by the local media? What, if anything, changes if Buzzed fled the scene instead of waiting for the police?

Case Study #6

FACT PATTERN: Hyer A. Cheever is a distinguished senior actuary nearing the end of his actuarial career who currently heads a large insurance company actuarial department. He is well-respected in the company and in the actuarial community at large, having in the past 15 years mentored numerous younger actuaries and spoken to actuarial conferences and co-authored articles for actuarial and insurance trade publications. Recently, however, an actuary at a competitor firm discovered that Cheever is listed in a local sex offender registry for a misdemeanor sex offense decades ago. The competitor actuary brings the offense to the attention of the ABCD.

QUESTIONS: Is there a potential violation of upholding “the reputation of the actuarial profession” under Precept 1 of the Code of Professional Conduct, even though Cheever has performed decades of estimable actuarial work since the offense? Does it matter if the offense occurred before Cheever was credentialed, or if it had been a felony offense? Does it matter whether this offense has received significant media attention, or whether the media has reported that Cheever is an actuary? Is the motive of the competitor actuary a concern? Is it appropriate for the competitor actuary to bring this offense to the attention of potential clients or the local news media?

Case Study #7

FACT PATTERN: Ms. Iwanna No, a credentialed actuary, and her spouse travel to a professional convention where Ms. No makes a presentation on subject matter in her area of practice. During the Q-and-A session following the presentation, Mr. Igot Info, a credentialed actuary in the audience, clearly disagrees and questions, in a respectful way, No's assumptions and her application of an ASOP. Ms. No answers the question in what she considers to be a professionally complete and responsible manner, and the session concludes. Ms. No's spouse later that evening informs Ms. No that she overheard Mr. Info badmouthing her presentation to a large dinner table of influential conference attendees and calling her a "partisan hack" whose approach was really just politically driven but dressed as facts. Ms. No gets almost no sleep that night, terrified that her reputation has been damaged and puzzling over what, if anything, she can do to repair it.

QUESTIONS: Should Ms. No directly confront Mr. Info, and if so, what should she say? Is Mr. Info entitled to his opinion of Ms. No's motives or did he go too far with his comments? Does it make an ethical difference if Ms. No's presentation was politically motivated or not, or Mr. Info's reaction was politically motivated or not? Are there disciplinary implications to Mr. Info's alleged badmouthing or Ms. No's confronting him? Does it matter, ethically or for disciplinary considerations, that both are actuaries? Who's an arbiter of "facts" in a situation of perceived political mudslinging?

Academy Resources

Academy Professionalism Resources

Professionalism Webpage

actuary.org/content/professionalism

- Code of Professional Conduct
- ASOPs
- Discussion papers
- U.S. Qualification Standards
- Webinars
- Applicability Guidelines
- Professionalism Counts

Professionalism First Microsite

professionalism.actuary.org

- Professionalism First
- Member Spotlight
- President's Message
- Up to Code
column in
Contingencies

Academy Podcast

- Series brings thoughtful conversations on the role of professionalism in our day jobs and the Academy's public policy work.
- Listen and subscribe at <https://contingencies.org/actuary-voices-podcast/> or via the below podcast feeds.



Questions?

Learn more anytime at:

☐ actuary.org

Break

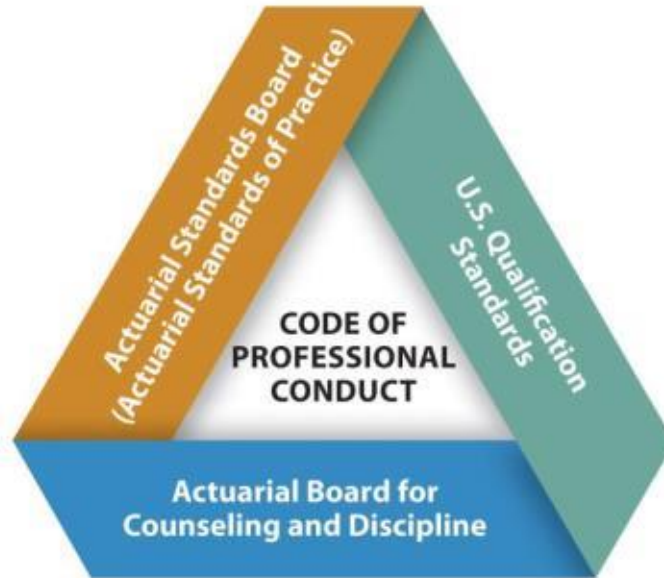
Agenda—Part 2

- ❑ ASB and ASOP Basics
- ❑ Actuarial Standards of Practice
- ❑ Selected ASOP Topics
- ❑ How to Get Involved
- ❑ Q&A

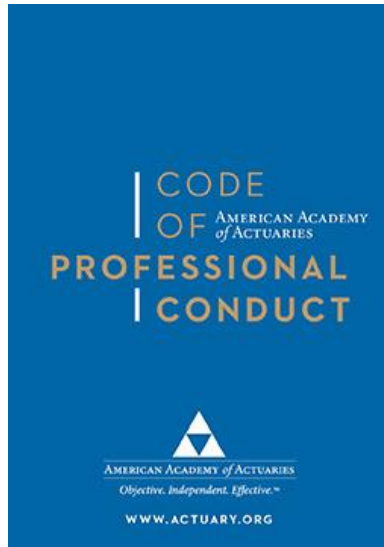
ASB Basics

- ❑ The ASB is established in and by Article XI of the bylaws of the American Academy of Actuaries.
- ❑ The ASB is legally a part of the Academy.
- ❑ The ASB has been delegated the authority to promulgate standards for the profession through the Academy bylaws.
- ❑ The ASB is the only body that can promulgate standards. ASB committees are established by the ASB to assist it in its work.

Web of Professionalism: Basis of Self-Regulation



Code of Professional Conduct



PRECEPT 3. An Actuary shall ensure that Actuarial Services performed by and under the direction of the Actuary satisfy applicable standards of practice.

Jurisdictional Note

The Code of Professional Conduct applies to any actuary who is a member of the five U.S.-based actuarial organizations:

- American Academy of Actuaries
- American Society of Enrolled Actuaries
- Casualty Actuarial Society
- Conference of Consulting Actuaries
- Society of Actuaries

Actuarial Standards Board

Members selected by the Selection Committee, which consists of the president and president-elect of three U.S. actuarial organizations

- ☐ 9 members
- ☐ Composition by specialties
- ☐ 3-year term, maximum 2 terms

Chairperson and two vice chairpersons

- ☐ Selected by the Selection Committee
- ☐ 1-year term, maximum 2 terms

ASB members play a standard-setting role, not an advocacy role, and serve the profession rather than any individual interest groups or coalitions



What We Do

The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of actuarial standards of practice (ASOPs).

What Is an ASOP?

ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

- ❑ Serve to assure the public that actuaries are professionally accountable.
- ❑ Provide practicing actuaries with a basis for assuring that their work will conform to appropriate practices.

The ASOP Advantage

ASOPs provide practicing actuaries with a basis for assuring that their work will conform to appropriate practices.

- ❑ Provide guidance, particularly in practice areas that may be somewhat unfamiliar.
- ❑ Give strong evidence to any interested observer that the profession serves the public in an effective and responsible way.
- ❑ Offer evidence of appropriate professional performance in the event of a civil or professional disciplinary action.

ASOP Structure

T. MEMO	History of the Standard and Contributors
SECTION 1	Purpose, Scope, Cross References, and Effective Date
SECTION 2	Definitions
SECTION 3	Analysis of Issues and Recommended Practices
SECTION 4	Communications and Disclosures
APPENDIX 1	Background and Current Practices
APPENDIX 2	Comments and Responses

Philosophy of ASOPs

- Provide guidance for appropriate practice, not merely codify current practice or best practice
- Are principle-based; are not prescriptive, unless required by law or regulation; and do not replace professional judgment
- Are flexible enough to allow for ranges of “appropriate practice” and evolving practice
- Provide guidance, rather than educational material
- Include a focus on disclosure, which is the cornerstone of demonstrating compliance with standards

Philosophy of ASOPs *continued*

- Cannot cover all circumstances, so alternatives are permissible as long as the reason is disclosed and justifiable
- Should satisfy regulators and others that the profession can be relied on to follow appropriate actuarial practice, so that legislatures and regulators do not have to set actuarial standards
- Cannot fill a legislative void
- Apply to all actuaries falling within their scope, not just the most senior or “issuing” actuary
- Cannot guarantee good work

ASOP Level of Prescription

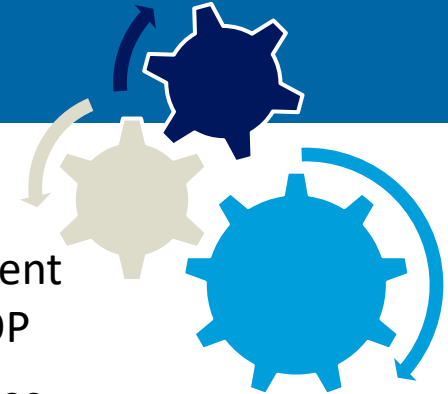
General thoughts (“*What ASOPs Can and Cannot Do*”):

- Standards have to be flexible enough to allow for different and changing conditions
- Standards are principle-based and need to provide enough guidance for an actuary to use professional judgment
- Standards cannot run afoul of restraint of trade laws
- Where requirements of law conflict, the law governs

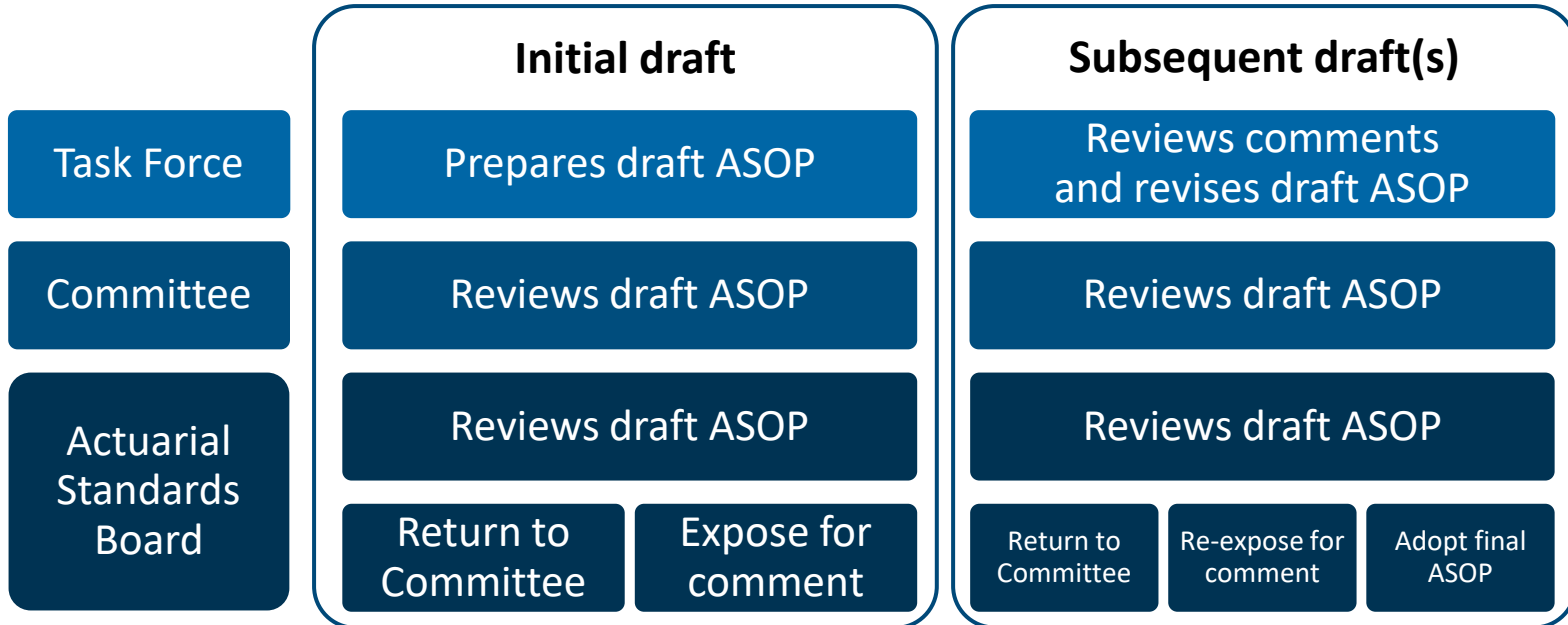
ASOP Process

When creating or revising an ASOP, the ASB:

- Follows its published and rigorous notice and comment procedures throughout the development of the ASOP
- Reviews and evaluates current and emerging practices
- Determines appropriate guidance
- Publishes an exposure draft to obtain input from actuaries (members) and other interested parties (public) and considers all comments received
- Publishes a final standard or another exposure draft



Standards-Setting Process



Actuarial Standards of Practice

Actuarial Standards of Practice

- ❑ The ASB sets standards for appropriate actuarial practice in the United States
- ❑ These ASOPs *describe the procedures* an actuary should follow when performing actuarial services...
- ❑ ...and identify *what the actuary should disclose* when communicating the results of those services

ASOPs by the Numbers

- ❑ 54 current standards
- ❑ Two new ASOPs (Reinsurance Pricing and Enterprise Risk Management) under development
- ❑ One conversion of Actuarial Compliance Guideline (ACG) No. 4 to an ASOP
- ❑ 14 existing ASOPs undergoing revisions

Determining Which ASOPs Apply

Actuaries are responsible for determining which ASOPs apply to the task at hand.

If no ASOPs specific to the task are applicable, the actuary may, but is not required to, consider:

- The guidance in related ASOPs or exposure drafts
- Actuarial literature, including practice notes

Applicability Guidelines developed by the Council on Professionalism and Education to *assist* actuaries to determine which ASOPs *might* apply, based on the type of work.

Example: Applicability Guidelines For Life ASOPs

Description of Assignment	Please note that the following ASOPs apply to all assignments in all practice areas:																											
	1. Introductory Actuarial Standard of Practice 23. Data Quality 41. Actuarial Communications																											
	2	5	6	7	10	11	12	15	17	18	19	21	22	24	25	33	37	38	40	42	46	47	48	52	54	55	56	
5.1.2 Compute economic capital		5		7		11	12									25		38	40	42							55	56
5.1.3 Perform embedded value or market consistent embedded value calculations		5		7		10	11	12			18	19				25		38	40	42					52			56
5.1.4 Perform projections in support of corporate forecasts (premiums, fees, policy benefits, expenses) as may be needed for ORSA or other reporting, in addition to statutory, GAAP, or IFRS reporting				7		11							22	25			38			46	47					55	56	
5.2 GAAP Reporting																												
5.2.1 Account for reinsurance transactions		5		7		10	11	12			18	21			25		38	42										56
5.2.2 Determine policy benefit liabilities, deferred acquisition cost assets, and other actuarial items for life insurance companies' financial statements		5		7		10	11	12			18	21			25		38	42	48									56
5.2.3 Determine fair value of insurance liabilities in accordance with FASB requirements		5		7		10	11	12			18	21			25		38	42	48									56
5.2.4 Perform premium deficiency, recoverability, or loss recognition testing for policyholder assets and liabilities in		5		7		10	11	12			18	21					38	42	48									56
5.2.5 Perform actuarial review in connection with a GAAP financial audit or examination		5		7		10	11				18	21			25		38	42	48									56
5.2.6 Responding to or assisting auditors in connection with preparation or review of audited financial statements						11					21													48				
5.3 International Reporting (European Solvency Requirements, IFRS, etc.)																												
5.3.1 Account for reinsurance transactions		5		7		11					18	21	22				38	40	42									56
5.3.2 Determine required capital in accordance with European (or other non-U.S.) solvency requirements				7		11											38										55	56
5.3.4 Responding to or assisting auditors in connection with preparation or review of audited financial statements						11					21																	
5.3.5 Perform actuarial review in connection with an IFRS (or other non-U.S.) basis financial audit or examination				7		11					21						38										55	56
5.4 Statutory Reporting																												
5.4.1 Account for reinsurance transactions	2	5		7		11	12	15	18		21	22					38	40	42					52				56
5.4.2 Determine reserves and other actuarial items for life insurance companies' statutory financial statements	2	5		7		11	12	15	18		21	22	25				38	40	42					52				56
5.4.3 Determine C-3 Phase 1 risk-based capital				7		11					21						38	42										56
5.4.4 Determine reserves according to the requirements of Actuarial Guideline 43/VM-21 and C-3 Phase 2 risk-based				7		11					21						38											56
5.4.5 Determine statutory statement of financial impact on accret																												

Cross-Practice ASOPs

ASOP No. 1, Introductory ASOP

ASOP No. 41, Actuarial Communications

ASOP No. 12, Risk Classification

ASOP No. 23, Data Quality

ASOP No. 17, Expert Testimony

ASOP No. 25, Credibility Procedures

ASOP No. 21, Responding to or Assisting

ASOP No. 38, Catastrophe Modeling

ASOP No. 32, Social Insurance

ASOP No. 56, Modeling

Discussion of Selected ASOPs

Some Tidbits from the ASOPs

- ❑ ASOP No. 1, *Introductory Actuarial Standard of Practice*
- ❑ ASOP No. 23, *Data Quality*
- ❑ ASOP No. 41, *Actuarial Communications*
- ❑ ASOP No. 56, *Modeling*

ASOP No. 1, *Introductory Actuarial Standard of Practice*

- ❑ Terms of construction (section 2.1)
- ❑ Materiality (section 2.6)
- ❑ Practical or Practicable (section 2.7)

Terms of Construction

- Must
- Should
- Should consider
- May

Materiality

- ❑ “Consider purposes of actuary’s work and how the actuary anticipates it will be used by intended users.”
- ❑ Item is “material if its omission or misstatement could influence a decision of an intended user.”
- ❑ “The guidance in ASOPs need not be applied to immaterial items.”

Practical or Practicable

- ❑ Terms are used interchangeably in ASOPs.
- ❑ Suggest “all possible steps need not always be taken to complete an assignment.”
- ❑ Use professional judgment “to decide that the circumstances surrounding a particular assignment are such that it would not be necessary to undertake a particular task.”
- ❑ Examples—ASOP No. 56, ASOP No. 28.

ASOP No. 23, *Data Quality*

- ❑ This ASOP provides guidance to actuaries when selecting data, performing a review of data, using data, or relying on data supplied by others, in performing actuarial services.
- ❑ This standard does not require the actuary to perform an audit of the data.

ASOP No. 23—Reliance on Data Supplied by Others

Sections 3.5 and 4.1

- ❑ The accuracy and completeness of data supplied by others are the responsibility of those who supply the data.
- ❑ The actuary may rely on data supplied by others, subject to:
 - ❑ A review of the data, if practical, or a disclosure that a review has not been performed
 - ❑ Disclosure of any unresolved questionable data values that could have a significant effect on the analysis
 - ❑ Disclosure of any adjustments to data or assumptions
 - ❑ Disclosure of potential existence of uncertainty or bias in the results using such data
- ❑ The actuary should disclose the extent of such reliance.

ASOP No. 23—Review of Data

Components of a review (section 3.3):

- ❑ Make a reasonable effort to determine the definition of each data element used in the analysis
- ❑ Make a reasonable effort to identify data values that are questionable or relationships that are significantly inconsistent
- ❑ Compare current data with data used in the prior analysis

ASOP No. 41, *Actuarial Communications*

- ❑ An actuarial communication is a written, electronic, or oral communication issued by an actuary with respect to actuarial services.
- ❑ An actuarial report is a set of documents that the actuary determines to be relevant to specific actuarial findings that is available to the intended user.
- ❑ The actuary should complete an actuarial report if the actuary intends the actuarial findings to be relied upon by any intended user.

ASOP No. 41—Reliance on Other Sources for Data and Other Information

Section 3.4.3, Reliance on Other Sources for Data and Other Information

- ❑ An actuary who makes an actuarial communication assumes responsibility for it, except to the extent the actuary disclaims responsibility by stating reliance on other sources.
- ❑ Reliance on other sources for data and other information means making use of those sources without assuming responsibility for them.

ASOP No. 41—Assumptions

Section 3.4.4

- Identify party responsible for each material assumption and method
- If prescribed by law, disclose
- If selected by another party:
 - If assumption does not significantly conflict with what the actuary believes is reasonable, no further disclosure requirement
 - If assumption conflicts, disclose
 - If unable to judge without performing substantial additional work or not qualified to judge, disclose

ASOP No. 56—Modeling

ASOP No. 56, *Modeling*, is effective for actuarial work performed on or after Oct. 1, 2020.

Highlights:

- ❑ Applies to actuaries when performing actuarial services with respect to designing, developing, selecting, modifying, or using models. Limited applicability when reviewing or evaluating models.
- ❑ Applies when reliance on the model output by the intended user has a material effect for the intended user.
- ❑ Applies only to the extent of the actuary's responsibilities.

ASOP No. 56—Modeling

ASOP No. 56 highlights (cont'd.):

- ❑ Understand model's intended purpose and confirm that design of model is consistent with the intended purpose (including model structure, data, assumptions)
- ❑ Section on assumptions used as input including setting assumptions, possible range of assumptions, consistency, prior assumptions, reasonable in the aggregate
- ❑ Section on understanding the model—basic operations, sensitivities, known weaknesses, limitations
- ❑ Sections on reliances—data or other information supplied by others, model developed by others, experts in developing model
- ❑ Section on model risk and model risk mitigation—model testing, model output validation, review by another professional, governance and controls

ASOP No. 56—Models Developed by Others

Section 3.4—If relying on a model designed, developed, or modified by others **and** have limited ability either to obtain information about the model or to understand the inner workings of the model, the actuary should:

- Disclose extent of reliance
- Make reasonable attempt to have a basic understanding of the model including:
 - Original intended purpose of the model
 - General operation of the model
 - Major sensitivities and dependencies
 - Key strengths and limitations
- Make practical attempts to comply with other sections of the standard

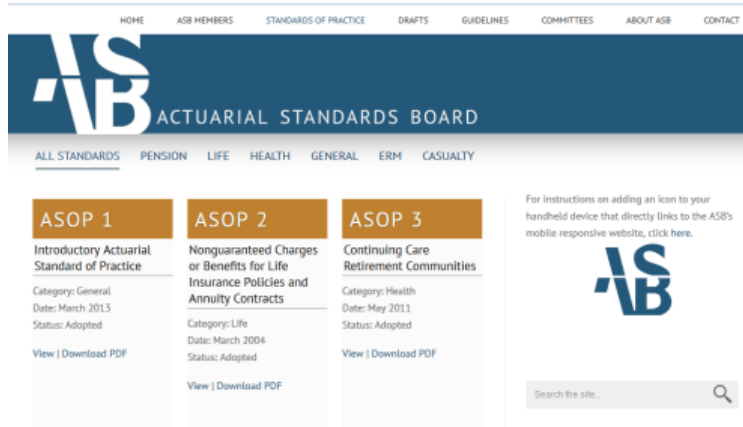
The ASOP Advantage

Regular reviews of ASOP No. 41 and No. 23 give practicing actuaries a solid foundation.

- ❑ Communication and data quality are the cornerstones of almost all the actuarial work we do.
- ❑ Can help you think through new project issues involving communications and data quality.

How YOU Can Be Involved!

Actuarial Standards Board Website



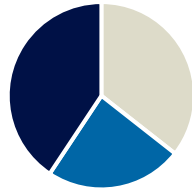
actuarialstandardsboard.org

- ❑ Review current ASOPs
- ❑ View exposure drafts and submitted comments
- ❑ Comment on exposure drafts
- ❑ Sign up for *Boxscore*
- ❑ Contact the ASB

Public Comments Matter

ASOP No. 54—Life and Annuity Pricing

First Exposure Draft
118 Comments



- Clarifications
- Expand or narrow guidance
- No change

Second Exposure Draft
75 Comments



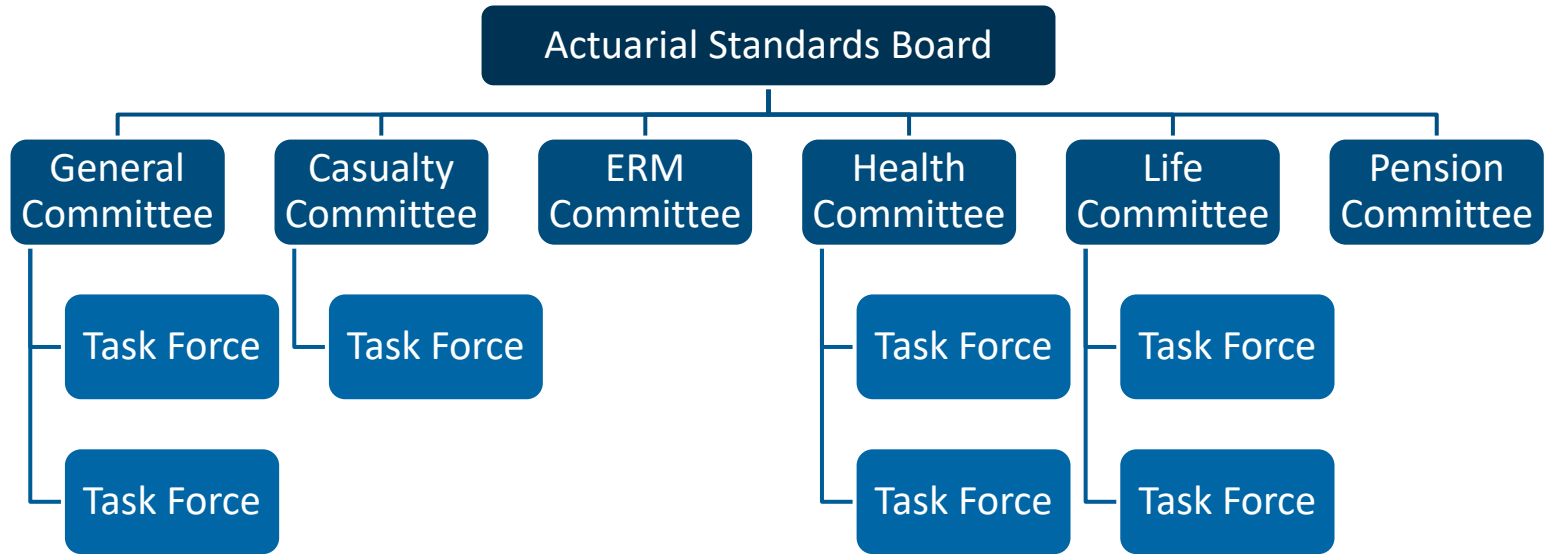
- Clarifications
- Minor change in guidance
- No change

The ASOP Advantage

Reviewing and commenting on exposed ASOPs is a worthwhile exercise

- ❑ Pushes you to think through issues related to your practice more deeply.
- ❑ Helps you think through the needs of your intended audience and whether you are meeting those needs.
- ❑ Opportunity to earn CE credits!

Join Us!



Questions?

Learn more anytime at:

☐ actuarialstandardsboard.org

Professionalism Webinar Tomorrow

“ASOP Essentials: Communications, Modeling, Data Quality, and More”

June 22, Noon to 1:30 p.m. EDT

USQS CE and JBEA CPE available

This webinar will explore vital points from ASOP No. 41, *Actuarial Communications*; ASOP No. 56, *Modeling*, and ASOP No. 23, *Data Quality*. In addition, the presenters will dive into ASOP No. 1, *Introductory Actuarial Standard of Practice*, which covers how ASOPs are meant to be used and how to interpret terms used across the ASOPs.

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