

# Actuarial Professionalism

Eric Wilder, FSA, MAAA

Shari Howiler, FSA, MAAA

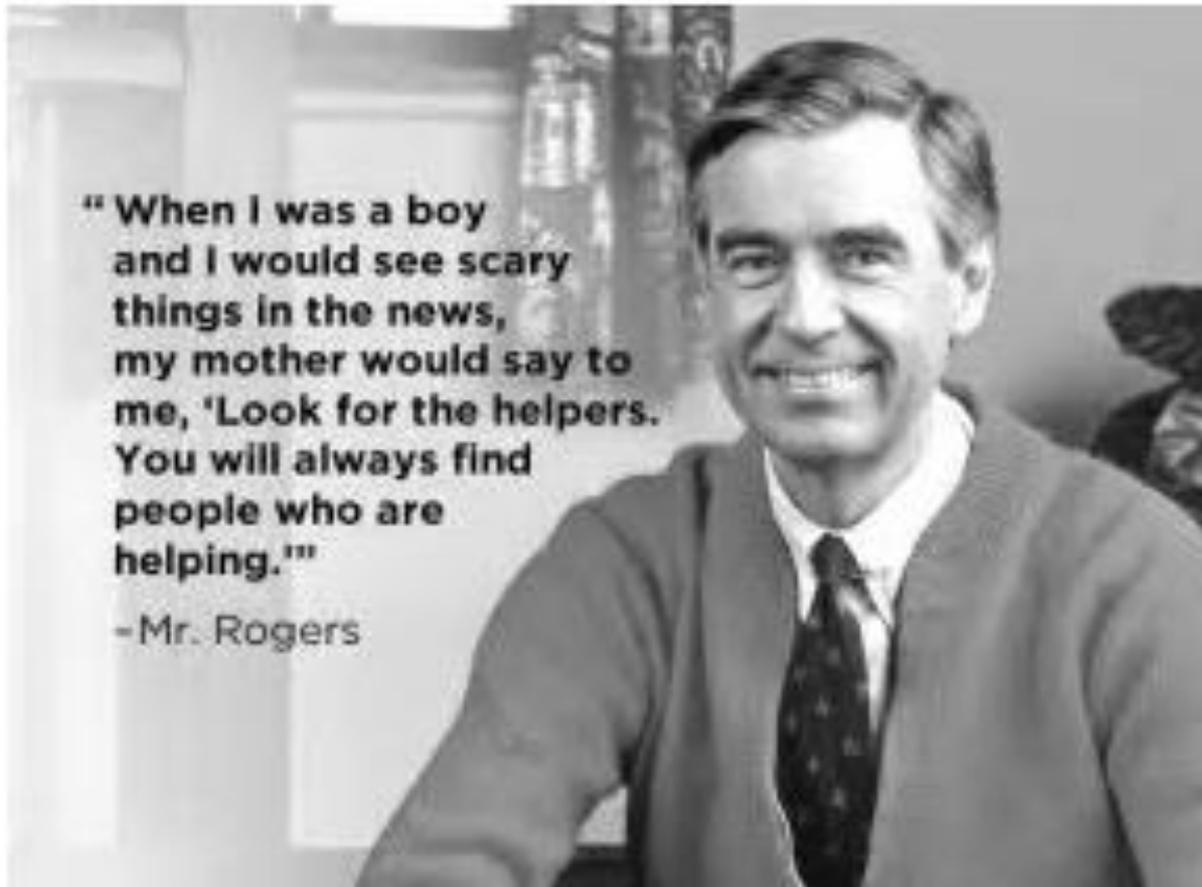
# Actuarial Professionalism

1. Disclaimers
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# Disclaimer #1

Please note: The presenters' statements and opinions discussed today do not necessarily represent the official statements or opinions of the ABCD, any boards or committees of the American Academy of Actuaries, or any other actuarial organization, nor do they express the opinion of their employers.

## Disclaimer #2



**"When I was a boy  
and I would see scary  
things in the news,  
my mother would say to  
me, 'Look for the helpers.  
You will always find  
people who are  
helping.'"**

**- Mr. Rogers**

# Disclaimer #3

**Imitation**, n.  
the highest form of flattery

Practical Applications of the Code of Professional Conduct - March 2017

Report on Actuaries' Perceptions of Key Ethical Issues - May 2015

Can You Hear Me Now? Actuarial Communications Under ASOP No. 41 -  
December 2016

# Mission of Our Code

## Question 1

Which of the following are considered binding guidance for actuaries who are members of at least one of the five recognized North American actuarial organizations?

1. The Code
2. ASOPs
3. USQS
4. Practice notes of the American Academy of Actuaries

- A. 1 only
- B. 1 and 2
- C. 1 and 3
- D. 1, 2 and 3
- E. All

**ANSWER: D** – Practice notes are useful info, but actuaries are not obliged to follow

## Question 2

In order to be qualified to perform a particular service, an actuary must:

1. Meet applicable qualification standards
2. Be able to look at oneself and say "I am qualified to do this work"
3. Be familiar with every ASOP

Which of the above phrases completes a true statement?

- A. 1 only
- B. 2 only
- C. 1 and 2
- D. 1 and 3
- E. All

**ANSWER: C – Precept 2; “Look in the mirror” test**

### Question 3

Which of the following could be a potential material violation of the Code:

1. Refusal to disclose confidential information
2. Understating reserves due to management pressure
3. Intentionally failing to file personal tax returns
4. Refusal to cooperate with a successor actuary

- A. None
- B. 1 and 2
- C. 2 and 3
- D. 2, 3, and 4
- E. All

**ANSWER: D (Trick question!!) – Precept 3, except where disclosure is contrary to law**

## Question 4

Under Precept 13 of the Code, an Actuary with “knowledge of an apparent, unresolved, material violation of the Code by another Actuary” is obligated to:

1. Discuss the situation with the other Actuary in an attempt to resolve it
  2. Report the apparent violation to the ABCD whether resolved or not
  3. Report the apparent violation even if such action would be contrary to Law
- 
- A. None
  - B. 1 only
  - C. 1 and 2
  - D. 2 and 3
  - E. All

**ANSWER: A – encouraged to discuss; if resolved, then not required; not if contrary to Law**

## Question 5

An actuary in a senior management position who is no longer providing “actuarial services” (as defined in the Code) is not bound by the Code.

- True
- False
- It depends

**ANSWER: False – Precept 1 always applies.**

# 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 purpose of the code:** “To require Actuaries to adhere to the high standards of conduct, practice, and qualifications of the actuarial profession, thereby supporting the actuarial profession in fulfilling its responsibility to the public.”

# Actuarial Board for Counseling and Discipline

**ABCD established in 1991 by the U.S. actuarial organizations to:**

- **Investigate** alleged violations of the Code of Professional Conduct by members and recommend discipline;
- **Counsel** (provide guidance to) members; and
- **Mediate** disputes between members and others.

# Academy's Report on Key Ethical Issues

# AAA Survey

<b>History</b> <ul style="list-style-type: none"><li>• Academy members surveyed Fall 2012</li><li>• Cross practice survey focused on ethics and professionalism</li><li>• Over 3,300 members completed (~20% of Academy members responded)</li><li>• Final Publication April 2015</li></ul>	<b>Structure</b> <ul style="list-style-type: none"><li>• Demographic breakdown</li><li>• 18 potential ethical concerns, ranked by level of concern</li><li>• Responses of “4” and “5” considered greater concern</li><li>• “1” and “2” considered lesser concern</li></ul>
<b>High-level Results</b> <ul style="list-style-type: none"><li>• None of the 18 was considered to be an overwhelmingly great concern</li><li>• Either the profession does not have serious ethical issues <b>OR</b> the profession does not perceive itself as having serious ethical issues.</li></ul>	<b>#1 Concern</b> <ul style="list-style-type: none"><li>• “Responding to pressure from principals and/or management to select inappropriate assumptions used in pricing or reserving”</li><li>• #1 issue across all practices and all regions</li><li>• #1 issue regardless of length of Academy membership</li></ul>

# Survey Results

## Next top ranked issues:

2. False or misleading representation of products or services in marketing, advertising, or sales efforts
3. Failure to take appropriate action when another actuary misrepresents information
4. Conflicts of interest between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities
5. Misrepresenting or concealing limitations in one's abilities to provide services
6. Misuse of proprietary/confidential information
7. Failure to provide complete and accurate information to regulators
8. Conflicts of interest involving business or financial relationships that influence, or appear to influence, one's ability to carry out professional responsibilities.

# Case Studies and Group Discussion

What would you do?

# Case Studies

**#1 You are a consulting actuary for a carrier with a large supplemental benefits portfolio.** Their CI block is mostly individual/guaranteed renewable and is composite-age rated. Their average issue age continues to rise well above what was assumed in pricing, they have recently seen higher than expected lapses, and the portfolio continues to feel interest rate pressure. You recommend a significant reserve adjustment. The CFO (also an actuary) disagrees and suggests that the assumptions in totality are too conservative.

What would you do? If you are an 'in house' actuary disagreeing with the CFO, is your approach any different?

# Case Studies

**#2 You are a pricing actuary working on a rate filing for a new worksite HI product in the state of XX.** This state is particularly difficult and can be confrontational in their disapprovals. You know the head actuary in this state has a casualty background (FCAS), does not understand the worksite market or the benefits of the supplemental product, and gets confused with ACA requirements/excepted benefits. In addition, the state's required loss ratio for this product is unreasonably high, because they do not understand the product.

How do you approach the filing with respect to ASOP 41 (can too much detail cause more confusion?) and minimum loss ratio requirements?

# Case Studies

**#3 You are an actuary and have been engaged by Company A to review the reserves for a potential acquisition of Company B.** You perform your own independent study and, after signing a confidentiality agreement with Company B, also received copies of the last two actuarial studies performed on Company B. Your reserve estimate is significantly higher than Company B's carried reserves. You reviewed Company B's actuarial studies and found a flaw in the methodology that, if corrected, would cause Company B to become insolvent. You attempt to contact Company B's actuary to make sure you are interpreting the results correctly and he has not returned your calls. What do you do?