

SOUTHEAST BY SOUTHWEST: PROFESSIONALISM TOPICS

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Agenda

- The Professionalism Framework
- The Code of Professional Conduct (The Code)
- The U.S. Qualification Standards (USQS)
- Actuarial Board for Counseling and Discipline (ABCD)
- Actuarial Standards of Practice (ASOPs)
- Professionalism Challenge



The Professionalism Framework



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Web of Professionalism: Basis of Self-Regulation



- ❑ The Code of Professional Conduct
- ❑ U.S. Qualification Standards (USQS)
- ❑ Actuarial standards of practice (ASOPs)
- ❑ Counseling and discipline (ABCD)

Self-Regulation

- The Academy issued a discussion paper in June 2020
 - ▣ *Self-Regulation and the Actuarial Profession*
- The paper was developed to encourage discussion, and particularly to:
 - ▣ Raise awareness of the importance and value of self-regulation.
 - ▣ Identify actuaries' responsibilities with respect to its maintenance.



Self-Regulation

- From among the ways actuaries can fulfill their responsibility for preserving self-regulation ...

“Monitor other actuaries – This is perhaps the most difficult aspect of a self-regulating profession, but it is of utmost importance.”



The Code of Professional Conduct



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Overview of the Code of Professional Conduct

- ❑ [The Code of Professional Conduct](#) contains 14 Precepts, along with annotations providing further guidance on adhering to the Precepts.
- ❑ The purpose of the Code is to require actuaries to adhere to high standards of conduct, practice, and qualifications of the actuarial profession.
- ❑ The Precepts are the equivalent of standards and must be followed by practicing credentialed actuaries who are subject to the Code, wherever located.
- ❑ In the event that any Precept conflicts with applicable laws or regulations, follow the law (this is true for actuarial standards of practice as well).



Precept 2: Qualification Standards

- 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.”
 - Annotation 2-1: “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 with changes in these standards.”



Precept 3: Standards of Practice

- Precept 3: “An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.”
 - Annotation 3-1: “It is the professional responsibility of an Actuary to observe applicable standards of practice that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services and to keep current with changes in these standards.”



The U.S. Qualification Standards



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U.S. Qualification Standards (USQS)

- The USQS applies to members of all five U.S.-based actuarial organizations (Academy, ASPPA/ACOPA, CAS, CCA, and SOA)
- The USQS sets forth qualification requirements for actuaries practicing in the U.S.
- Proposed update to the USQS was exposed for comment on Sept. 2, 2020, with comments due Oct. 31, 2020



U.S. Qualification Standards—SAO

- 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



I AM CERTAIN THAT WILLIAM SHAKESPEARE was not thinking about the U.S. 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 1913 that a "Rose is a rose is a rose is a rose" but the principle underlying these famously flippant examples of the logical law of identity 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.

Paragraph 2 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."¹ 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."² The USQS, and the answers to **Essential Actuarial 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,"³ and not merely involve numbers or calculations. FAQ 17, for example, explains that if an actuary states "the health care trend you have experienced is 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 trend 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."⁴ 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."⁵

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 work. 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."⁶

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 15 regarding the interpretation of "gray areas," "the Committee recommends that practicing actuaries endeavor to meet the USQS rather than expending time and energy trying to find interpretations that support exemption from the USQS." An SAO is an SAO is an SAO. ▲

Footnotes

¹ Romeo and Juliet, Act II, Scene 2.
² From the poem "A Rose is Emily."
³ USQS, Section 1.
⁴ USQS, Section 1.
⁵ USQS, Section 1.
⁶ USQS, Section 1.
⁷ Appendix 1, 109.
⁸ Appendix 1, 109.
⁹ USQS, Section 1.
¹⁰ Conferences, September/October 2016, p. 24.

USQS Structure

- Section 1. Introduction (including definitions)
- Section 2. General Qualification Standard
 - Basic Education and Experience Requirements
 - Continuing Education Requirements
- Section 3. Specific Qualification Standards (when necessary)
- Section 4. Changes in Practice and Application
- Section 5. Acknowledgement of Qualification
- Section 6. Recordkeeping Requirements



USQS Process to Update

- ❑ Committee on Qualifications prepares an update for exposure
- ❑ American Academy of Actuaries Board reviews and votes for exposure
- ❑ Exposure draft available for comment
- ❑ Comments will be reviewed and considered
 - Comments could range from editorial to substantive
 - Could relate to the specific updates or propose additional items
 - Submitted comments are published and linked to the USQS webpage
- ❑ Determination if new exposure draft or if sufficient to submit to Board for final approval



USQS Exposure Draft Proposed Changes

- Add clarity related to the basic education required for actuaries practicing in the U.S.
- Remove references to specific SOA specialty tracks
- Clarify the basic education of an Enrolled Actuary in relation to the types of work this actuary performs
- Incorporate the relevant SOA examinations as identified by the NAIC for fulfilling the basic education requirements for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statements



Actuarial Board for Counseling and Discipline



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Actuarial Board for Counseling and Discipline

- ABCD Guidance (two forms)
 - Most common is individual guidance.
 - An informal discussion with an individual ABCD member
 - Represents considered opinion of an individual ABCD member, not the ABCD as a whole
 - On occasion, ABCD does provide public guidance.
- Discipline
 - ABCD role is to investigate and make recommendations, but does not have authority to impose discipline.
 - Discipline is decided upon/imposed by actuarial organizations of which the actuary is a member.



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Actuarial Standards of Practice



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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



Existing and Planned ASOPs

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 by Actuaries	ASOP No. 25	Credibility Procedures
ASOP No. 21	Responding to or Assisting...	ASOP No. 56	Modeling
ASOP No. 32	Social Insurance	Exposure	Setting Assumptions

Practice-Specific ASOPs

Casualty

ASOP Nos. 13,
19, 20, 29, 30,
36, **38**, 39, 43,
53

ERM

ASOP Nos. 46,
47, 55

Health

ASOP Nos. **3**, 5,
6, 8, **11**, **18**, 19,
22, 26, **28**, 42,
45, 49, 50

Life

ASOP Nos. **2**, 7,
10, **11**, 15, 19,
22, 24, 33, 37,
40, 48, 52, 54

Pension

ASOP Nos. **4**, 6,
27, 34, **35**, 44,
51



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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 to *assist* actuaries to determine which ASOPs *might* apply, based on the type of work.



Applicability Guidelines For Life ASOPs

 Applicability Guidelines for Actuarial Standards of Practice – Life <small>AMERICAN ACADEMY of ACTUARIES</small> <i>Objective. Independent. Effective.™</i>	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																											
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Description of Assignment	Actuarial Standard of Practice (ASOP)																											
	2	4	5	6	7	10	11	12	15	17	18	19	21	22	24	25	33	37	40	42	46	47	48	52	54	55	56	
1.0 Appraisals																												
1.0.1 Estimate value of insurance company, insurance marketing organization, or block of insurance contracts	2		5		7		11	12	15		18	19				25			40	42				52		55	56	
2.0 Enterprise Risk Management/Own Risk and Solvency Assessment																												
2.0.1 Develop the ORSA, performing the modeling, and writing the					7		11	12			18		21							46	47					55	56	
2.0.2 Conduct ERM activities, including but not limited to setting risk tolerances and measuring risk/return tradeoffs					7		11	12			18									46	47				54	55	56	
3.0 Experience Studies and Development of Related Assumptions																												
3.0.1 Perform experience studies	2		5	6					15		18										42		48				56	
3.0.2 Use experience study results in the development and review of actuarial assumptions used in financial projections, pricing, and determining reserves	2		5	6	7	10			12	15		18		21	22	24	25	33	37		40	42		48	52	54		
4.0 Expert Advice, Witness, and/or Testimony																												
4.0.1 Provide expert witness testimony in connection with actuarially related matters	17																											
Note that any standards relating to the subject on which the actuary is providing expert advice would also apply.																												
5.0 Financial Analysis, Projection, and Reporting																												
5.1 Financial Analysis and Projections																												
5.1.1 Perform profitability analysis/projections, including projections of capital, group capital, and development of	2		5		7	10	11	12	15		18					25			40	42				52	54	55	56	
5.1.2 Compute economic capital			5		7		11	12								25				42						55	56	
5.1.3 Perform embedded value or market consistent embedded value calculations			5		7	10	11	12			18	19				25			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											25				46	47				55	56		
5.2 GAAP Reporting																												
5.2.1 Account for reinsurance transactions			5		7	10	11	12			18		21			25				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				42		48					56	

New Cross-Practice Standard



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ASOP No. 56 - Modeling

- ❑ Effective for work performed on or after 10/1/20
- ❑ Includes actuarial services with respect to designing, developing, selecting, modifying, using, reviewing, or evaluating models
- ❑ The guidance covers such topics as:
 - ❑ The need to understand the model's intended purpose
 - ❑ The need to understand the model itself
 - ❑ Reliance on data supplied or models developed by others
 - ❑ Reliance on experts
 - ❑ Evaluation and mitigation of model risk
 - ❑ Documentation and disclosure



Life Standards in Process of Development



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ASOP No. 2—Nonguaranteed Elements

- Since last updated in 2004, there has been increased attention to practices that insurers use to determine and manage NGEs.
- ASOP introduces concept of insurer's NGE framework, including insurer's NGE determination policy, how policy classes are established, and practices used to determine NGE scales.
- Actuary's advice should be consistent with NGE scales determined:
 - With the expectation that they will only be revised if anticipated experience factors change
 - Based on reasonable expectation of future experience and not with the objective of recouping past losses or distributing past gains
- 2nd exposure draft was in June, with comments due 11/13/20



ASOP No. 11—Reinsurance Financial Reporting

- Since last updated in 2005, practices have changed, driven by changes in the regulatory environment
- Proposed revisions clarify that they apply to actuarial services in connection with both external and internal financial reports
- Updated guidance includes impact on financial reporting of:
 - ▣ Counterparty risk
 - ▣ Nonguaranteed reinsurance elements
 - ▣ Nonguaranteed elements of the policies being reinsured
 - ▣ The impact of reinsurance on retained business
- Second exposure draft expected in March of 2021



ASOP No. 22—Statements of Opinion Based on Asset Adequacy Analysis

- Since last updated in 2001, there have been regulatory and practice changes
- Standard now written to comply with the model Standard Valuation Law and VM-30 of the NAIC Valuation Manual or with other applicable law
- The first exposure draft added trends in assumptions, assumption margins, and sensitivity testing
- Second exposure draft released in June included a few new sections based on the comments received – a section on separate account assets and a section on reinsurance
- ASOP has a comment deadline of 11/30/20



Health Standards in Process of Development



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ASOP No. 3—Continuing Care Retirement Communities (CCRCs)

- Last updated in 2007
- Addresses actuarial practice for At Home Programs that are not regulated as an insurance entity
- Includes new disclosure requirements intended to enhance the quality of actuarial communications regarding CCRCs and At Home Programs
- Exposure draft expected to be released any day now



ASOP No. 18—Long-Term Care Insurance

- ASOP No. 18 sets forth recommended practices for actuaries involved in designing, pricing, funding, or in evaluating liabilities for insurance contracts or similar arrangements providing LTC benefits
- Since last updated in 1999, there have been material changes in products, assumption considerations, and regulations
- Exposure draft expected to be released in March of 2021



ASOP No. 28—SAOs Regarding Health Insurance Liabilities and Assets

- Last updated in 2011
- Revisions address concerns of regulatory actuaries related to the need for improved consistency of the information provided in the actuarial memorandum supporting actuarial opinions
- Guidance expanded to address the use of an explicit provision for adverse deviation as well as implicit conservatism in assumptions
- Comment deadline was 11/13/20



Cross-Practice Standards in Process of Development



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Setting Assumptions ASOP

- The first draft of a cross-practice standard on setting assumptions was released in 2016
- Topics covered in the ASOP include:
 - Experience used to develop assumptions
 - Assumption margins
 - Reasonableness of assumptions
 - Consistency of assumptions
- A second exposure draft was released in March 2019, and a third exposure draft was released in October with a comment deadline of 4/15/21



ASOP No. 38 – Catastrophe Modeling

- ASOP No. 38 is currently only applicable to the casualty practice area, but the new draft expands the standard to apply to all practice areas
- Applies to all forms of catastrophe models, including natural catastrophes, such as hurricanes and earthquakes, and other catastrophes such as terrorist acts and pandemics
- In addition, the scope was expanded to include the activities “selecting, reviewing, and evaluating” models in addition to the existing activity of “using” a model when performing actuarial services
- Initial work was completed in 2014, and was put on hold, waiting for the completion of ASOP No. 56, to make any final consistency changes

37 □ Comment deadline is 1/15/2021



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Proposals Recently Approved by the ASB



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Proposals Recently Approved by ASB

- Update to ASOP No. 12, *Risk Classification*
- Update to ASOP No. 45, *The Use of Health Status Based Risk Adjustment Methodologies*
- Update to ERM ASOP Nos. 46 and 47
- Development of New ASOP on Life and Health Reinsurance Pricing



Professionalism Challenge



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Questions?

