

SOUTHEASTERN ACTUARIES CONFERENCE PROFESSIONALISM TOPICS



AMERICAN ACADEMY of ACTUARIES

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Agenda

- A Self-Regulated Profession
- “The Web of Professionalism”
- The Code of Professional Conduct (The Code)
- Important Things To Know
- Resources



Self-Regulation

- The importance of 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.”



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)



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.”



Important Things to Know

- Changes to the USQS
- Applicability Guidelines
- Continuing Education and CE Tracking
- ABCD
- ASOPs



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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 twice, in 2020 and 2021. The Academy Board approved an update to the USQS in early November.



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 [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,"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 "Sweet Emily."
³ USQS, Section 1.
⁴ USQS, Section 1.
⁵ USQS, Section 1.
⁶ Appendix 1, 1p3.
⁷ USQS, Section 1.
⁸ Appendix 1, 1p3.
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



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

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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	11	12	15	17	18	19	21	22	24	25	33	37	40	42	46	47	48	52	54	55	56
1.0.1 Estimate value of insurance company, insurance marketing organization, or block of insurance contracts	2		5		7		11	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	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	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			11		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		11	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	11	12	15		18					25			40	42				52	54	55	56
5.1.2 Compute economic capital			5		7		11	11	12								25				42						55	56
5.1.3 Perform embedded value or market consistent embedded value calculations			5		7	10	11	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			11									25				46	47				55	56	
5.2 GAAP Reporting																												
5.2.1 Account for reinsurance transactions			5		7	10	11	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	11	12			18	21				25				42			48				56



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Continuing Education

CE Requirement

Be sure to record/track your CE



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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

- 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
		ASOP No. 38	Catastrophe Modeling

Practice-Specific ASOPs

Casualty

ASOP Nos. **7**,
13, 19, **20, 29**,
30, 36, 39, 43,
53

ERM

ASOP Nos. **46**,
47, 55

Health

ASOP Nos. **3**, **5**,
7, 6, 8, **11, 18**,
19, **22**, 26, **28**,
42, **45**, 49, 50,
ACG 4, Reins
Pricing

Life

ASOP Nos. **2**, **7**,
10, 11, 15, 19,
22, 24, 33, 37,
40, 48, 52, 54,
ACG 4, Reins
Pricing

Pension

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



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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



Professionalism Resources



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Professionalism Resources

- Academy Professionalism Webpage
- Applicability Guidelines
- ASOPs
- ABCD Confidential Counseling
- COPR Papers
- Academy Webinars





Code of Professional Conduct
The Code identifies the professional and ethical standards required of actuaries who practice in the United States.



U.S. Qualification Standards
U.S. Qualification Standards define the basic and continuing education and experience requirements for issuing actuarial opinions.



Actuarial Standards of Practice
ASOPs provide guidance on the techniques, applications, procedures, and methods that reflect appropriate actuarial practices in the United States.



Professionalism Webinars
An archive of webinars on professionalism topics including U.S. Qualifications Standards, the Code of Conduct, and Actuarial Standards of Practice.



Professionalism Discussion Papers
Read papers on actuarial professionalism, standards of conduct, qualification, and practice.



Applicability Guidelines
Guidelines on which ASOPs might apply to actuarial assignments.



Professionalism and the Practicing Actuary
Get an overview of the Code of Professional Conduct, the U.S. Qualification Standards, Actuarial Standards of Practice, and the Actuarial Board for Counseling and Discipline.



Request a Professionalism Speaker
Request one of the Academy's experienced and knowledgeable speakers who have volunteered to share their expertise on actuarial professionalism.




Order a Copy of the Code of Professional Conduct
Members of the Academy may order a complimentary pocket-sized copy of the Code by logging into your member account [here](#).



Mobile-Friendly ASB Site
For instructions on adding an icon to your handheld device that directly links to the ASB's mobile responsive website, click [here](#).






A culture of
PROFESSIONALISM FIRST

HOME ACTUARY VOICES MEMBER SPOTLIGHT PRESIDENT'S MESSAGE PROFESSIONALISM COUNTS UP TO CODE

The American Academy of Actuaries was established in 1965 to professionalize the U.S. actuarial community and earn the public's trust. The Academy's role in the standards and institutions that make up the professionalism infrastructure are no accident; they are at the heart of the Academy's mission.

The Academy provides standards of conduct, practice, and qualification for the U.S. actuarial profession. These **standards** together ensure: responsibility, competence and trust.



STANDARDS
CONDUCT
PRACTICE
QUALIFICATION

»» ✓ RESPONSIBILITY 🏆 COMPETENCE 🤝 TRUST

Questions?

