



The Actuarial Standards Board

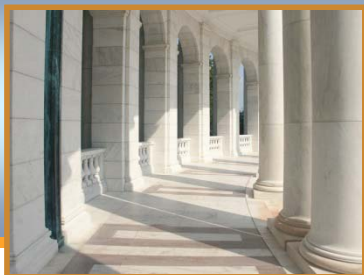
Al Beer, FCAS, MAAA

*Professor of Risk Management, Insurance and Actuarial Science
St John's University*



AMERICAN ACADEMY *of* ACTUARIES

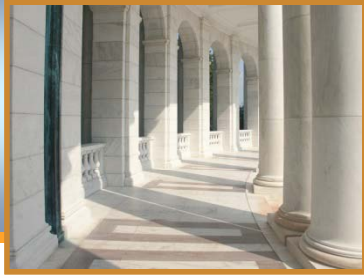
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Disclaimer

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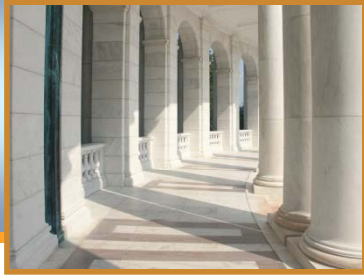




The Actuarial Standards Board

- The ASB is an entity established within and managed with the support of the American Academy of Actuaries staff. It operates independently in establishing standards.
- It was established in 1988 as the single board promulgating standards of practice for the entire actuarial profession in the United States.
- The ASB was founded with the sole authority to develop, obtain comment upon, adopt, and continuously review standards of practice.



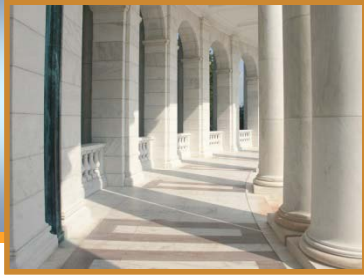


The Actuarial Standards Board

(cont'd)

- The ASB's goal is to set standards for appropriate actuarial practice in the U.S.
- Actuarial Standards of Practice (ASOPs) identify what the actuary should consider, document, and disclose when performing an actuarial assignment.
- The ASB establishes and improves standards of actuarial practice.

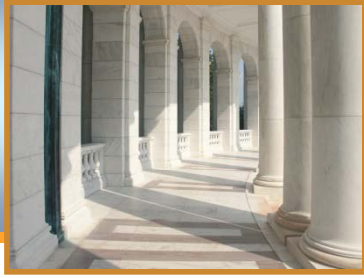




Composition of the Actuarial Standards Board

- Nine members
- 3-year terms
- One-third of the Board appointed each year
- One can serve no more than 2 consecutive terms
- Broadly representative of all areas of practice
- Appointed by Council of U.S. Presidents





Composition of the Actuarial Standards Board

2014 Members of the ASB

Patricia Matson, Chair

Robert G. Meilander, Vice-chair

Jim Murphy, Vice-chair

Mike Abroe

Chris Carlson

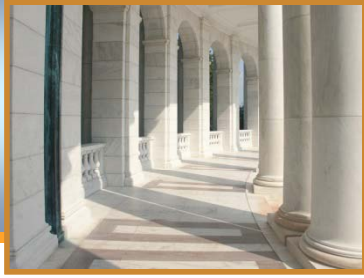
Maryellen Coggins

Beth Fitzgerald

Thomas D. Levy

James F. Verlautz





Standing Committees

Actuarial Standards Board

Casualty

General

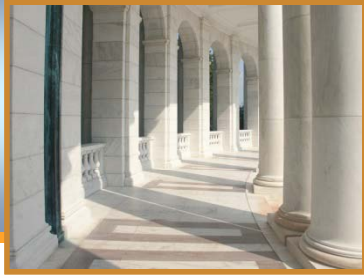
Health

Life

Pension

ERM

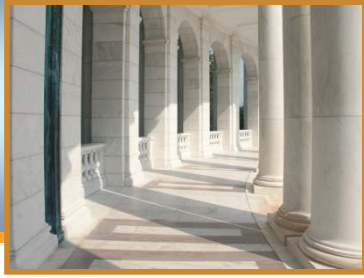




ASB Standing Committees

- Members are selected to represent a broad spectrum of expertise within each practice area.
- Members are selected from a broad cross section of firms/companies that work in each practice area.
- Members are proposed by the Committee Chairs and are approved by the ASB.

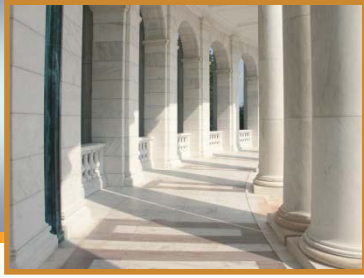




Process To Develop An ASOP

- Anyone may submit a proposal to the ASB, describing why a new Actuarial Standard of Practice is needed and what it would cover.
- After reviewing and evaluating current and emerging practices, the ASB may:
 - Approve the proposal and refer it to the appropriate Standing Committee to develop an Exposure Draft;
or
 - Decline to approve it.

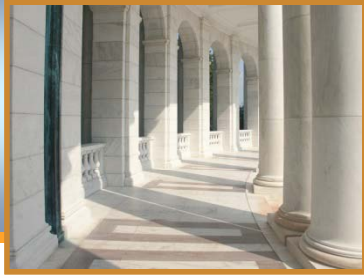




Process To Develop An ASOP (cont'd)

- Proposal sent to a Standing Committee to develop an Exposure Draft
- Proposed Exposure Draft is sent to the ASB for review
- Exposure Draft is approved for release by the ASB
- Distributed to the profession and other parties for comment
- At the conclusion of a specified comment period, the Standing Committee reviews all the comments received and makes modifications as deemed appropriate.





Process To Develop An ASOP (cont'd)

- The Standing Committee then submits a Final Draft of the ASOP to ASB for approval.
- The ASB reviews the proposed ASOP and may
 - Approve the New/Revised ASOP; or
 - Re-expose it, depending on the materiality of changes from existing exposure draft.
- *www.actuarialstandardsboard.org*



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- [→ Discussion Drafts](#)
- [→ Exposure Drafts](#)
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ASB Headlines

ASOP No. 27 Exposure Draft; No. 4 Discussion Draft Comment Deadlines Extended

The comment deadline for the exposure draft of ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, and ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, has been extended to April 30, 2011. The ASOP No. 27 revision reflects changes in language on such issues as assumptions, discount rates, and investment returns. The ASOP No. 4 discussion draft was issued by the Pension Committee to encourage feedback and comments on several challenging and diverse issues, such as market-consistent measures and prescribed assumptions. Although the Committee is not committed to responding to the feedback it receives on the discussion draft, the Committee intends to incorporate the feedback into its work on developing more significant changes to ASOP in 2011.

ASB Repeals ASOP Nos. 2 and 9

The ASB recently repealed both ASOP No. 2, *Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88*, and ASOP No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratingmaking, Loss Reserving, and Valuations*. The Pension Committee of the ASB reviewed ASOP No. 2 and compared its various sections to ASOP No. 4. The conclusion was that ASOP No. 2 was redundant with ASOP No. 4; therefore, the Committee recommended it for repeal. The repeal was effective March 14, 2011. The Casualty Committee of the ASB reviewed ASOP No. 9 and compared its various sections to ASOP No. 41 as well as the *Code of Professional Conduct*. The Committee

Download the latest ASB Boxscore



**REVISED
ASOP No. 41**

**Actuarial
Communications
Webinar**

**New guidance for
every actuary.**

MARCH 23

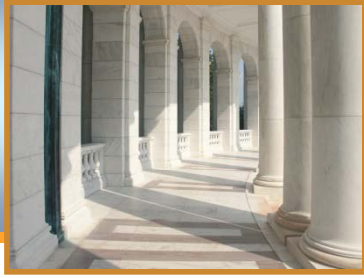
Register Today!





Recent ASB Activities Relevant To Casualty Actuaries





CASUALTY COMMITTEE

Ratemaking

An exposure draft on Ratemaking is being drafted, which the Committee to presented to the ASB at its September 2014 meeting.

ASOP No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves

The Committee is discussing possible revisions to ASOP No. 36 and plans to present an exposure draft to the ASB at its March 2015 meeting.

ASOP No. 43, Property/Casualty Unpaid Claim Estimates

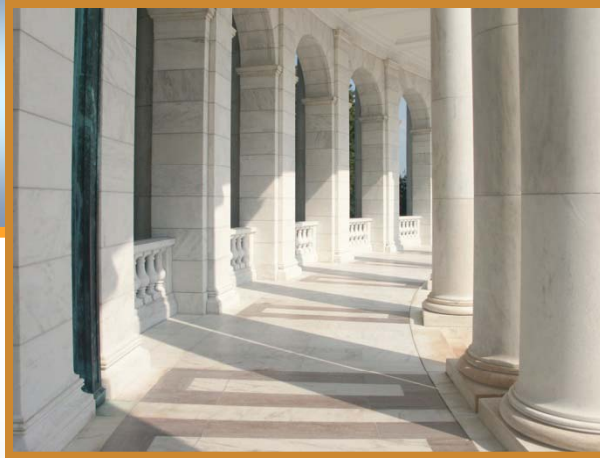
The Committee is discussing possible revisions to ASOP No. 43 and plans to present an exposure draft to the ASB at its March 2015 meeting.

ERM COMMITTEE

ORSA

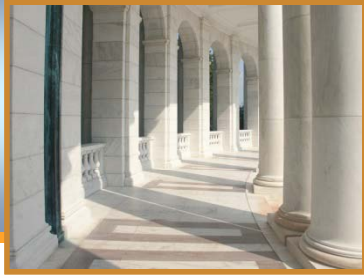
A discussion draft on ORSA is being completed, which the Committee plans to present to the ASB at its December 2014 meeting.





Revised ASOP No.1

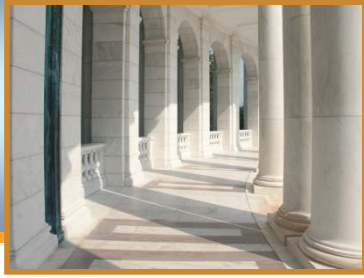




Introduction to ASOP No. 1

- **What is ASOP No. 1?**
 - A revision to the former introduction to ASOPs
 - Sets the stage for all other ASOPs
 - Improves and streamlines wording as compared to prior introduction
 - Adds important new definitions
 - Makes clearer that it carries the full weight of an ASOP



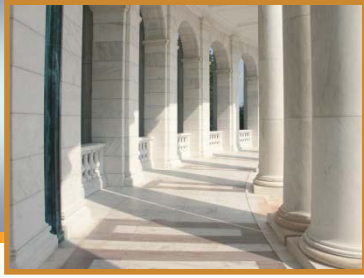


Setting the Stage

■ The Code of Professional Conduct

- ❑ The Code is the foundation of actuarial professionalism for U.S. credentialed actuaries
- ❑ The Code contains 14 Precepts, including *Precept 3* which states: “*An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.*”



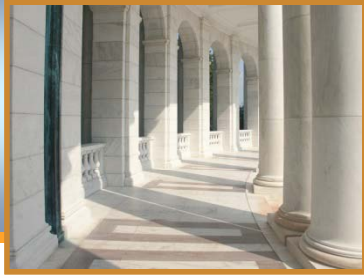


Code of Professional Conduct

Actuarial Services:

Professional Services provided to a Principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.

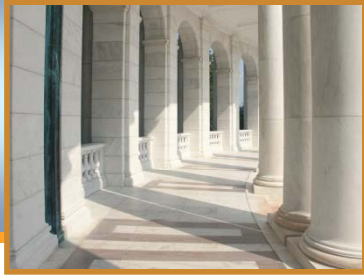




Substance of ASOP No. 1

- ***Introduction and Section 1 - Overview***
 - Key terms used in the other ASOPs are defined and discussed in ASOP No. 1
 - Carries the same weight and authority as other ASOPs
 - Applies to all ASOPs and all practice areas





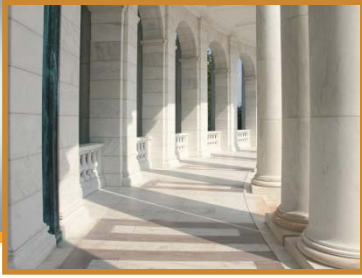
Substance of ASOP No. 1

■ *Section 2 – Definitions, Discussions, and Related Guidance:*

“Must/Should”

- ❑ Subtle but important distinction
- ❑ Must = ASB does not envision any scenario where there would be a reasonable alternative
- ❑ Should = what is normally the appropriate practice to follow
- ❑ Allowed to deviate if actuary follows ASOP No. 41





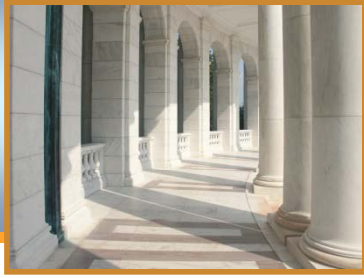
Substance of ASOP No. 1

■ *Section 2 – Definitions, Discussions, and Related Guidance:*

“Actuarial Soundness”

- Ambiguous term with multiple definitions
- See Academy Actuarial Soundness Task Force Paper published May 2012
<http://www.actuary.org/files/publications/Actuarial%20Soundness%20Special%20Report%20FINAL%205%2010%2012.pdf>
- Actuary should define the meaning of actuarially sound in the context he/she is using it





Substance of ASOP No. 1

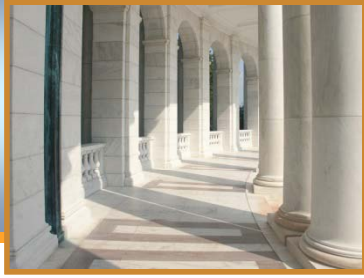
■ *Section 2 – Definitions, Discussions, and Related Guidance:*

“Materiality”

- ❑ “...its omission or misstatement could influence a decision of an intended user”
- ❑ Professional judgment
- ❑ Applicable law, standards, or guidelines
- ❑ ASOPs need not be applied to immaterial items
- ❑ See Academy’s Discussion Paper on Materiality (June 2006)

http://www.actuary.org/files/materiality_06.8.pdf/materiality_06.8.pdf

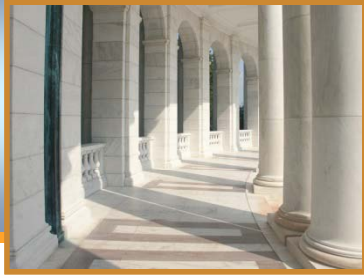




Substance of ASOP No. 1

- *Section 3 – Purpose and Format of the ASOPs*
 - ❑ Identify what “should be considered, done, documented, and disclosed” when rendering actuarial services
 - ❑ Use professional judgment in new or non-routine situations
 - ❑ “Appropriate Practice”, not Generally Accepted Practice!!!
 - ❑ Principles-based; not a how-to-manual
 - Analytical framework; allows for professional judgment
 - Reasonable differences in conclusions possible
 - ❑ Practice notes, research papers, study notes, text books and journals, etc. may be helpful, but they do not establish actuarial standards of practice and are not binding.



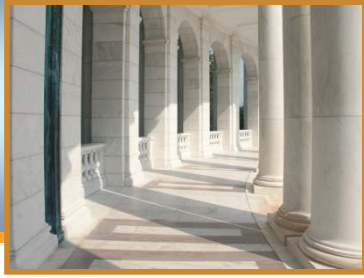


Substance of ASOP No. 1

■ Section 4 – Compliance

- Use “good faith” approach: reasonable professional judgment / professional integrity (Precept 1 of the Code) -- strained interpretations are not appropriate
- Responsible for determining which ASOPs apply (consider reviewing “Applicability Guidelines”)
- If it is necessary to deviate from the guidance in an ASOP, it is not a breach if disclosed as described in the ASOP

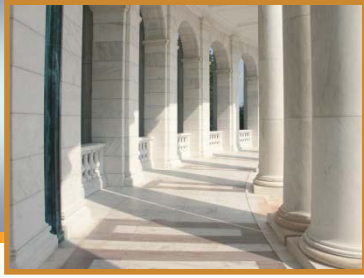




Conclusion

- **ASOP No. 1 provides real guidance**
 - Applicable to all actuarial work
 - Helps to put the role of the other ASOPs into the context of your daily work
 - Helps you read and use all the other ASOPs





ASOP No. 41:

Actuarial Communications

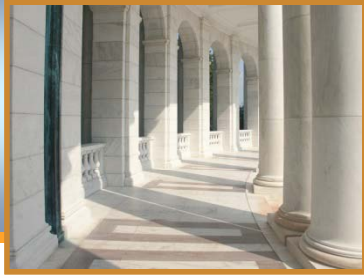
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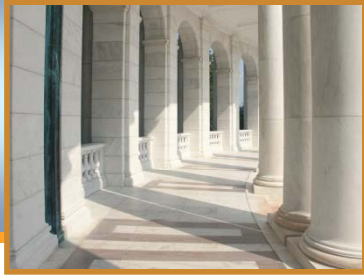
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When Is Something an Actuarial Communication?

- When there is an actuarial opinion or finding.....
- That is communicated in writing (including electronically)
- or orally.....
- As a result of professional services.....
- Which are provided to a principal (client or employer)...
- By an individual acting in the capacity of an actuary.





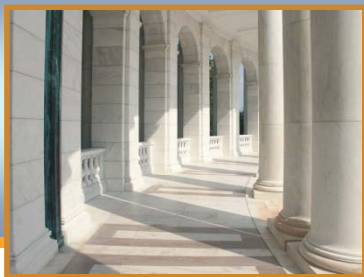
Code of Conduct

Definitions

Actuarial Communication: A written, electronic, or oral communication issued by an Actuary with respect to Actuarial Services.

Actuarial Services: Professional services provided to a Principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.





Are These Actuarial Communications?

YES ?

Email to my actuary boss with the first cut results of my pricing model

Peer review comments on my coworker actuary's report

Email to my accountant boss with the first cut results of my pricing model

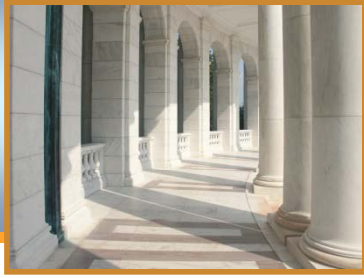
NO ?

Brochure describing my firm's actuarial services

Tax return I prepared for my nephew

Thoughts from my quick review of my church's pension valuation

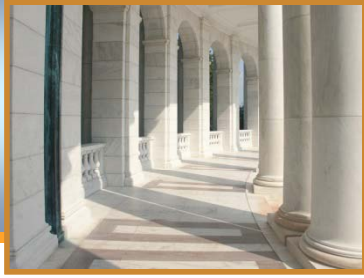




Requirements for Actuarial Communications

- Appropriate form and content
- Clear, with appropriate language
- Provided in a reasonable time period
- The Responsible Actuary is identified
- Include sufficient info on data, methods, assumptions so another actuary can assess reasonableness
- Communicate which documents comprise the report
- May limit report contents in “special circumstances”



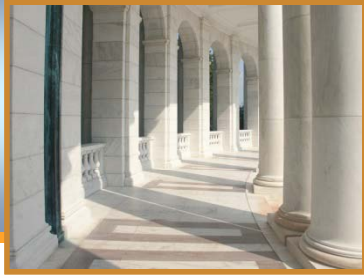


ASOP 41

3.3 Specific Circumstances—The content of an actuarial report may be constrained by circumstances. The actuary should follow the guidance of this standard to the extent reasonably possible within such constraints. When those constraints exist, it may be appropriate not to include some of the otherwise required content in the actuarial report. However, limiting the content of an actuarial report may not be appropriate if that report or the findings in that report may receive broad distribution.

If the actuary believes circumstances are such that including certain content is not necessary or appropriate, the actuary must be prepared to identify such circumstances and justify limiting the content of the actuarial report.

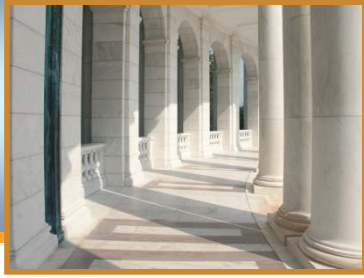




Disclosures

- Actuarial communications must include specified disclosures.
- Disclosures include items such as:
 - intended user
 - scope and purpose
 - qualifications
 - cautions on risk and uncertainty
 - limitations or constraints
 - reliances/information supplied by others
 - subsequent events
- The actuary is responsible for all actuarial assumptions and methods unless the actuary discloses otherwise.

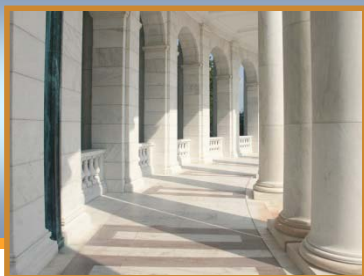




Case Study 1

- You are a Chief Actuary at a large insurance company.
- You are presenting to the Board of Directors about the results of your annual reserving study, and your presentation includes all the required disclosures.
- The person handling the final presentation editing has cut your presentation down to 2 pages, since the Board has insisted that materials be shortened so they have time to digest everything.
- Several of the required disclosures under ASOP 41 have been cut.
- What should you do?





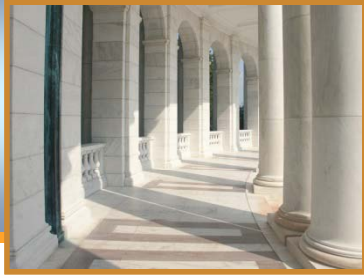
Case Study 1

Option 1: Insist on retention of all disclosures, even if the Board won't be happy about it

Option 2: Leave the materials short, but make sure your verbal talking points include every missing one

Option 3: Make sure that the key disclosures for understandability are retained, and leave out the rest

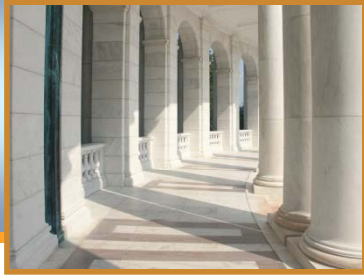




Case Study 2

- You are working on an acquisition at a mid size insurer.
- The deal is in the final stages of negotiation, and the CFO just emailed you asking for a quick and dirty adjustment to the purchase price if the loss development factors were increased 10%.
- The analysis takes you about an hour, but you still need to reread the applicable ASOPs to make sure you've included all the required disclosures.
- What should you do?





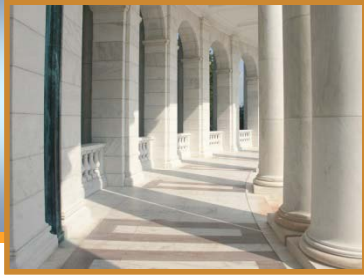
Case Study 2

Option 1: Read through the applicable ASOPs and email the results with disclosures as soon as you can

Option 2: Email the results right away with the disclosures you think are needed for the CFO to use your result, follow up later with any remaining ones

Option 3: Email the result along with a web link to the ASOPs in case the CFO wants to read them

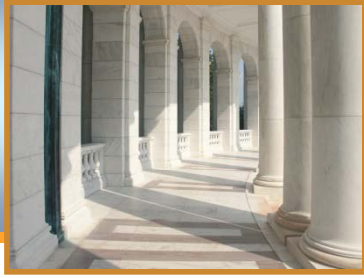




Where To Go for Additional Guidance

- ABCD provides guidance to actuaries who ask for help in interpreting the Code and/or actuarial standards of practice (ASOPs).
- Requests for Guidance from an ABCD member (usual process)
 - Individual ABCD member provide guidance to individuals confidentially.
 - Responses represent the individual ABCD member's considered opinion, not the views of the ABCD as a whole.
- Requests for Guidance from full ABCD
 - The ABCD members as a whole considers such matters
 - As appropriate, written formal guidance is provided

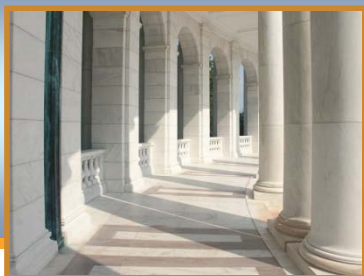




Where To Go for Additional Guidance

- The ABCD also responds to requests for guidance from actuarial students and may respond to requests for information from others, such as users of actuarial services
- Most requests for guidance are made by e-mail or by phone to the ABCD office (guidance@abcdboard.org, 202.223.8196) or to an individual ABCD member (<http://www.abcdboard.org/guidance/>).

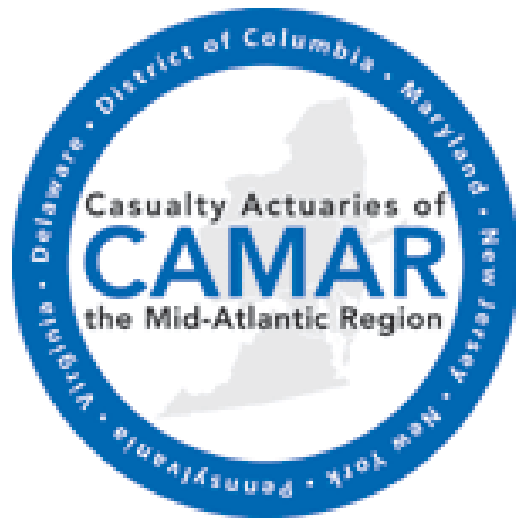




Also.....

Remember that reading an ASOP, and commenting on exposure drafts count as professionalism CE time





Thank You

