

Actuarial Standards of Practice No.1

Presented by
Karen Jordan FCAS, MAAA and
Michael Speedling¹ ACAS, MAAA

Disclaimer

Please note that the statements and opinions expressed by the presenters are those of the individual presenters and do not represent the statements or opinions of the Casualty Actuaries of the Southeast.

Agenda

- Introduction to ASOP No. 1
- Where Does ASOP No. 1 Fit In
- Summary ASOP No. 1
- Intersection with ASOP No. 41
- Conclusion
- Questions

Introduction to ASOP No. 1

■ What is ASOP No. 1?

- The current ASOP 1 was effective for all actuarial services performed on or after June 1, 2013
- Prior ASOP 1 titled “Nonguaranteed Charges or Benefits for Life Insurance Policies or Annuity Contracts” was renumbered ASOP 2
- Current ASOP 1 is considered a revision to the former *Introduction to the Actuarial Standards of Practice*

Introduction to ASOP No. 1

- **What is ASOP No. 1 (continued)?**
 - It is intended to improve wording as compared to prior introduction, which was not included as a numbered ASOP
 - In addition, important new definitions were added
 - Makes clearer that it carries the full weight of an ASOP

Introduction to ASOP No. 1

- **Why was the new ASOP No. 1 introduced?**
 - The ASB created the new ASOP 1 to reinforce the mandatory nature of the guidance contained in the introduction
 - Its creation is also to provide more clarity in terms of construction of ASOPs, particularly in connection with ASOP No. 41 deviation disclosure requirements

Where Does ASOP No. 1 Fit In

■ **How does the introduction fit in?**

- Provides guidance to actuaries on how to read and interpret the other actuarial standards of practice
- Definitions and discussions to be used in all other ASOPs are included in ASOP 1
- Describes the purpose and format of the ASOPs
- Discusses how ASOPs are binding on actuaries
- Appendices to ASOP 1 provide useful background information

Summary of ASOP No. 1

■ **Section 1 - Overview**

- Sets forth principles that have been broadly applicable to the work of the ASB since its inception
- Carries the same weight and authority as other ASOPs (was numbered to indicate this emphasis)
- Applies to all ASOPs and all practice areas

Summary of ASOP No. 1

■ Section 1 - Overview

- While the ASOPs are binding, they are not the only considerations that affect an actuary's work
- Other considerations include:
 - Legal and regulatory requirements
 - Professional requirements promulgated by employers or actuarial organizations
 - Evolving actuarial practice
 - The actuary's own professional judgment informed by the nature of the engagement

Summary of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: “Must/Should”**
 - Subtle but important distinction
 - Must = ASB does not anticipate any scenario where there would be a reasonable alternative
 - Should = what is normally the appropriate practice to follow when rendering actuarial services
 - Failure to follow “must” or “should” actions constitute deviation from the guidance, in which case the actuary is directed to ASOP 41, *Actuarial Communications*

Summary of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: “Must/Should”**
 - “must” and “should” generally followed by an action phrase or word
 - If, after consideration, an actuary uses professional judgment to determine that an action is not appropriate, the action is not required and failure to take action is not a deviation from the guidance in the standard

Summary of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: “May”**
 - Course of action described is one that would be reasonable and appropriate in many circumstances
 - Used often in examples
 - Not to imply that other courses of action are impermissible

Summary of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: "Actuarial Soundness"**
 - Has different meanings in different contexts
 - 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

Summary of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: “Known”**
 - Unless ASOP clearly indicates otherwise, this means that the actuary had actual knowledge of the item in question at the time the actuary rendered services
 - The actuary must often rely on others to provide relevant information

Summary of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: "Materiality"**
 - An item is material if its omission or misstatement could influence a decision of an intended user
 - Actuary should consider the purposes of the work and how it will be used
 - Actuary must use professional judgment and knowledge of applicable laws, standards, or guidelines

Summary of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: "Materiality"**
 - Materiality is sometimes defined by other users
 - 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

Summary of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: "Practical" or "Practicable"**
 - Suggest that all possible steps need not always be taken
 - Assignments often require a course of action that is likely to yield an appropriate result without being unnecessarily time-consuming, elaborate, or costly relative to the principal's needs

Summary of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: “Reasonable”**
 - Intent is to call upon the actuary to exercise the level of care and diligence that is necessary to complete the assignment in an appropriate manner
 - Two actuaries could follow a particular ASOP and arrive at different but reasonable results.

Summary of ASOP No. 1

- **Section 2 – Definitions, Discussions, and Related Guidance: “Significant/Significance”**
 - Can have different meanings
 - May have statistical significance
 - May be significant if likelihood of occurrence is more than remote
 - May be significant because of its consequences
 - Other issues
 - Use care in interpreting

Summary 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
 - Intended for use by actuaries who are qualified to do so under Precept 2 of the Code of Professional Conduct (and under the U.S. Qualification Standards)
 - Not intended to shift burden of proof or production during litigation
 - Deviation should not be considered malpractice.

Summary of ASOP No. 1

- **Section 3 – Purpose and Format of the ASOPs**
 - ASOPs are intended to provide guidance for dealing with commonly encountered situations
 - ASOPs are principal based and not intended to cover every step and decision
 - There are situations where applicable law may require the actuary to deviate from the guidance of an ASOP. The law shall govern if this conflict arises.
 - Other literature provides information that actuary may consider when rendering services

Summary of ASOP No. 1

- **Section 3 – Purpose and Format of the ASOPs**
 - Law supersedes ASOPs and may result in a deviation
 - ASOPs are binding; other actuarial literature is not
 - Other literature may be helpful, but they do not establish actuarial standards of practice and are not binding
 - Although the ASOPs contain three sections, transmittal memo, the standard, appendices **only the standard itself is binding**

Summary 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)
- ASOPs make specific provisions for situations where actuary is required to or deems it appropriate to deviate from an ASOP
- Refer to ASOP 41 if deviation is necessary

Summary of ASOP No. 1

■ **Appendices – Purpose and Description**

- Appendix 1 provides background and additional information

- *Much of this taken from body of original Introduction

- *Not guidance, but still useful information

- *Covers the following:

- Clarification of Language

- Role and Scope of ASOPs

- Development of ASOPs

- Organization of ASOPs

- Appendix 2 discusses the comments on the Exposure Draft

-Webinar from American Academy of Actuaries

Intersection with ASOP No. 41

- **Like all the ASOPs, ASOP No. 41 is enhanced and clarified by a reading of ASOP No. 1**
 - ASOP No. 1 like ASOP No. 41 deals with broad issues affecting all areas of actuarial practice (cross-practice)
 - Discussions of “must”, “should”, “deviation”, “professional judgment” and others, along with other provisions such as Section 4 Compliance with ASOPs, help to clarify ASOP No. 41
 - *What constitutes deviation from the guidance
 - *When and how do the disclosure requirements apply
 - *What are Specific Circumstances

Conclusion

- **ASOP No. 1 provides real guidance**
 - It is applicable to all actuarial work
 - It will help to put the role of the other ASOPs into the context of your daily work
 - It will help you read and use all the other ASOPs
- **Read ASOP No. 1 and become familiar with it**

-Webinar from American Academy of Actuaries

■ Questions

References

- Actuarial Standards of Practice 1, Introductory Actuarial Standard of Practice
- Setting the Ground Rules: Revised ASOP No.1 and Other Key Information for Actuaries, Webinar June 17, 2013 by the American Academy of Actuaries