

Professionalism and the Practicing Actuary

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1

Agenda

- ▶ Introduction
- ▶ Code of Professional Conduct
- ▶ Actuarial Standards of Practice relevant to P&C actuaries
- ▶ Case Studies

2

The Importance of Professionalism: Increased Scrutiny of Actuaries

- ▶ Standard and Poor's analysis (2003)
 - "Insurance Actuaries: A Crisis of Credibility"
 - Blamed actuaries for reserve shortfalls in early 2000s
 - #1 Casualty Actuarial story for 2003 (CAS)
- ▶ Morris Review in the UK (2004-05)
 - Led to oversight by Financial Reporting Council
- ▶ Mealey's Litigation Report (Dailey & Selznick, 2004)
 - "Actuarial malpractice claims proliferated in the 1990s, which saw three times as many cases as the prior two decades combined. If anything, the pace has quickened: more cases have been brought since 2000 than in all the 1990s."

3

Purpose of the CAS recognizes Professionalism

- ▶ To advance the body of knowledge in actuarial science applications other than life insurance,
- ▶ To establish and maintain standards of qualification for membership,
- ▶ **To promote and maintain high standards of conduct and competence for its members,**
- ▶ To increase awareness of actuarial science.

Actuaries are "Professionals"

- ▶ Elements of professional organizations*
 - Knowledge requirements
 - Value system (e.g. ethics)
 - Organizational structure
- ▶ Actuaries possess all three elements

*Source: Bellis et al, *Understanding Actuarial Management: the actuarial control cycle*, Institute of Actuaries of Australia, 2006.

Importance of Written Standards*

1. Checklist of agreed practices
2. Protects Principal and others who may rely on work
3. Protects the Actuary from undue pressure by Principal
4. Provides some protection to Actuary from allegations of misconduct
5. Satisfies regulators that actuaries will perform task to given standards.

*Source: Bellis et al, *Understanding Actuarial Management: the actuarial control cycle*, Institute of Actuaries of Australia, 2006.

Code of Professional Conduct

7

Professional Integrity

► PRECEPT 1:

An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession.

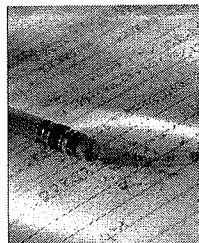


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Qualification Standards

► 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.

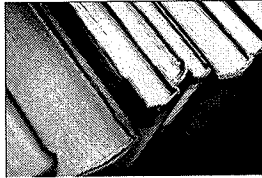


9

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.

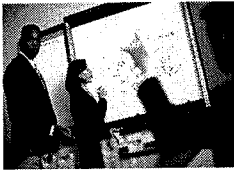


10

Communications and Disclosure

► PRECEPT 4:

An Actuary who issues an Actuarial Communication shall take appropriate steps to ensure that the Actuarial Communication is clear and appropriate to the circumstances and its intended audience and satisfies applicable standards of practice.



11

Communications and Disclosure

► PRECEPT 5:

An Actuary who issues an Actuarial Communication shall, as appropriate, identify the Principal(s) for whom the Actuarial Communication is issued and describe the capacity in which the Actuary serves.

12

Communications and Disclosure

► PRECEPT 6:

An Actuary shall make appropriate and timely disclosure to a present or prospective Principal of the sources of all direct and indirect material compensation that the Actuary or the Actuary's firm has received, or may receive, from another party in relation to an assignment for which the Actuary has provided, or will provide, Actuarial Services for that Principal. The disclosure of sources of material compensation that the Actuary's firm has received, or may receive, is limited to those sources known to, or reasonably ascertainable by, the Actuary.

13

Conflict of Interest

► PRECEPT 7:

An Actuary shall not knowingly perform Actuarial Services involving an actual or potential conflict of interest unless:

- the Actuary's ability to act fairly is unimpaired;
- there has been disclosure of the conflict to all present and known prospective Principals whose interests would be affected by the conflict; **and**
- all such Principals have expressly agreed to the performance of the Actuarial Services by the Actuary.

14

Control of Work Product

► PRECEPT 8:



An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties.

15

Confidentiality

► PRECEPT 9:

An Actuary shall not disclose to another party any Confidential Information unless authorized to do so by the Principal or required to do so by Law.



16

Courtesy and Cooperation

► PRECEPT 10:



An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.

17

Advertising

► PRECEPT 11:

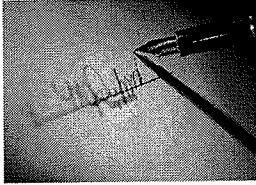
An Actuary shall not engage in any advertising or business solicitation activities with respect to Actuarial Services that the Actuary knows or should know are false or misleading.



18

Titles and Designations

► PRECEPT 12:



An Actuary shall make use of membership titles and designations of a Recognized Actuarial Organization only in a manner that conforms to the practices authorized by that organization.

19

Violations of the Code of Professional Conduct

► PRECEPT 13:

An Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary should consider discussing the situation with the other Actuary and attempt to resolve the apparent violation. If such discussion is not attempted or is not successful, the Actuary shall disclose such violation to the appropriate counseling and discipline body of the profession, except where the disclosure would be contrary to Law or would divulge Confidential Information.

20

Violations of the Code of Professional Conduct

► PRECEPT 14:

An Actuary shall respond promptly, truthfully, and fully to any request for information by, and cooperate fully with, an appropriate counseling and disciplinary body of the profession in connection with any disciplinary, counseling or other proceeding of such body relating to the Code. The Actuary's responsibility to respond shall be subject to applicable restrictions on Confidential Information and those imposed by Law.

21

Canadian Rules of Professional Conduct

- ▶ The Rules of Professional Conduct in Canada require that certain procedures must be followed when a member is aware of a violation of the Rules.
 - Affirmative responsibility to act to correct violation
 - No confidentiality agreement or employment protections exist



22

Common Allegations Received by ABCD

Alleged Violation	Number Disposed or In Process (2005)	Number Disposed or In Process (2006)	Precept
Failure to act with integrity	19	18	1
Calculation or data errors	7	2	1
Failure to perform services with competence	3	3	1
Other errors in work	3	3	1
Work fails to satisfy ASOP	3	3	3
Improper reserve estimate for insurer	3	0	3
Use of unreasonable assumptions	3	1	3
Failure to cooperate with other actuary	3	3	10

Source: ABCD 2005 and 2006 Annual Reports

23

P&C Actuarial Standards of Practice

24

Actuarial Standards of Practice

- ▶ ASOPs that apply to all practice areas
 - 23 Data Quality, 41 Communications, 9 Documentation & Disclosure
- ▶ Reserving ASOPs
 - 20, 36, 43
- ▶ Ratemaking ASOPs
 - 13, 29, 30, 39
- ▶ Other Key ASOPs
 - 12, 17, 25, 38

25

Use of Applicability Guidelines

- ▶ Excellent reference along with the list of Actuarial Standards of Practice
- ▶ To encourage professionalism of actuaries
- ▶ Non-authoritative guidance
- ▶ Example – Preparing a reserve estimate for Schedule P:
 - Should follow ASOPs 20, 21, 23, 38, 41, and 43
 - If issuing an actuarial opinion, need to also consider ASOPs 13 and 36.

<http://www.actuary.org/pdf/prof/guide.pdf>

26

ASOP#23: Data Quality

- ▶ Guidance for the following
 - Selecting data that underlie the work product
 - Relying on data supplied by others
 - Reviewing data
 - Using data
 - Making appropriate disclosures regarding data quality
- ▶ All practice areas – not just P&C
- ▶ Does not require data audit

27

ASOP#41 - Requirements for Actuarial Communications

- ▶ Identify Responsible Actuary
- ▶ Identify Principal for whom findings are made; clearly state scope and any limitations or constraints
- ▶ Communicate methods, procedures, assumptions, data and other information required to complete the work
- ▶ Form and content clear and appropriate to audience
- ▶ Issued in timely manner

ASOP#41 – Required Disclosures

- ▶ Uncertainty or Risk
- ▶ Conflict of Interest
- ▶ Reliance on Others
- ▶ Responsibility for Assumptions and Methods
- ▶ Information Date of the Report
- ▶ Subsequent Events

ASOP#41 – Other Key Provisions

- ▶ An Actuarial Report must state with sufficient clarity findings and identify methods, procedures, assumptions and data used
- ▶ Explanation of Material Differences
 - Necessary if a later communication includes materially different results or expresses a different opinion than a former communication on the same issue
 - Should make clear that earlier results or no longer valid, and it should explain the reasons for the change

ASOP#41: Actuarial Communications

- ▶ All types of Actuarial work – not just P&C
- ▶ Written, Electronic, or Oral Communications
- ▶ Provides guidance for the appropriate form and content that should be included - depending on circumstances and audience
- ▶ Discusses timelines and reliance on others

31

ASOP#43: Property/Casualty Unpaid Claim Estimates

- ▶ Newest ASOP Effective
- ▶ Rationale for development
 - No current ASOP for reserving
 - CAS Statement of Principles being revised to exclude guidance language more appropriate for an ASOP
 - ASOP 36 applies only to statutory Statements of Actuarial Opinion

32

ASOP#43: Property/Casualty Unpaid Claim Estimates (cont'd)

- ▶ Only "Actuarial Finding" estimates
- ▶ Out of scope
 - Estimates for ratemaking
 - Actions taken by Actuary's principal
 - Contingent commission calcs, retro-rating, etc.
- ▶ Applies to all classes of entities
 - Self-Insureds, Ins Cos, Reins, Gov't entities
- ▶ Applies to gross amts before recoverables
- ▶ **Written** or **Electronic** form

33

**ASOP#36: Statements of Opinion
P/C Loss and LAE Reserves**

- ▶ Guidance for *written* statements of opinion
- ▶ Applies to insurance cos, reinsurance cos and other P/C Risk Financing systems
 - Such as Self-Insurance
- ▶ Applies to practices that relate to the principles presented in the Reserving Statement of Principles Document

34

**ASOP #20: Discounting of P&C
Loss and LAE Reserves**

- ▶ Defines issues and considerations that actuary needs to take into account when discounting reserves.
- ▶ Scope includes practices that relate to the Reserving Statement of Principles
- ▶ Does not address the appropriateness of discounting in specific contexts.

35

**ASOP#39: Treatment of Catastrophe
Losses in P/C Ratemaking**

- ▶ Guidance in evaluating catastrophe exposure and determining a provision for cat Loss and LAE in the rate
- ▶ Applies to all P/C Insurance Coverages
- ▶ Applies to other P/C Risk Financing Systems
 - Like self-insurance and securitization products

36

ASOP#30: Profit and Contingency Provisions and Cost of Capital in P/C Ratemaking

- ▶ Guidance for estimating and evaluating these provisions in ratemaking.
- ▶ Applies to all P/C Insurance Coverages
- ▶ Applies to other P/C Risk Financing Systems
 - Such as Self-Insurance
- ▶ Only addresses considerations that affect rate – not price

37

ASOP #29: Expense Provisions in P/C Ratemaking

- ▶ Guidance in estimating costs for ratemaking other than...
 - Incurred Losses
 - Profit provision
 - Investment expenses
 - Income taxes
- ▶ Applies to all P/C Insurance Coverages
- ▶ Applies to other P/C Risk Financing Systems
 - Such as Self-Insurance

38

ASOP #13: Trending Procedures in P/C Ratemaking

- ▶ Provides basis for assessing trending procedures
 - Estimating future expected values using historical data
- ▶ Historical Data is that referred to in the Ratemaking Statement of Principles
- ▶ Applicable to all P&C lines of insurance.

39

ASOP#38: Using Models Outside the Actuary's Area of Expertise

- ▶ Guidance for models that incorporate specialized knowledge outside actuary's own area of expertise
- ▶ All P/C Insurance Coverages
- ▶ Includes risk financing systems
 - Like self-insurance and securitization products
- ▶ All models, even if proprietary
- ▶ Revision is pending

40

ASOP#25: Credibility

- ▶ Guidance for selecting credibility procedures
- ▶ Guidance for assignment of credibility values to
 - Subject Experience
 - Related Experience (Complement)
- ▶ Applies to other Financial Security Systems
 - Such as self-insurance

41

ASOP#17: Expert Testimony

- ▶ Applies to testimony in trial, hearing or arbitration, deposition or by declaration or affidavit
- ▶ Does not apply to litigation support
- ▶ Allows for differences of opinion between actuaries
- ▶ Must disclose conflicts of interest
- ▶ Must satisfy qualifications standards of PSAOs to give expert testimony

42

ASOP#12: Risk Classification

- ▶ Provides guidance for designing, reviewing, or changing RC systems
- ▶ May include expert testimony, regulatory or legislative work, public policy stmnts
- ▶ Applies if "giving advice" on RC system
- ▶ May rely on clinical experience, expert opinions, or inference in absence of actual data

43

Case Studies



44

Case Studies Overview

- ▶ "Real life" predicaments
- ▶ Structure of session
 - Read the case together.
 - Review in small groups
 - Discussion
- ▶ Disclaimers:
 - Exercise is for education purposes only.
 - Opinions expressed do not represent the opinion of the respective employers or the Casualty Actuarial Society.
 - No authoritative guidance should be expected of the moderator or panelists.

45
