

# Lights! Camera! Professionalism!

Brought to you by the CAS  
Committee On Professionalism Education.

- ▶ This will be an interactive session so we decided not to release the actual presentation. Instead, this document contains highlights of the code of conduct and applicable ASOPs. It can be reviewed prior to the session to obtain additional CE credits or during the session to aid in the discussion. For more detail, please see the ASB website:

<http://www.actuarialstandardsboard.org>

# Code of Professional Conduct



# 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.

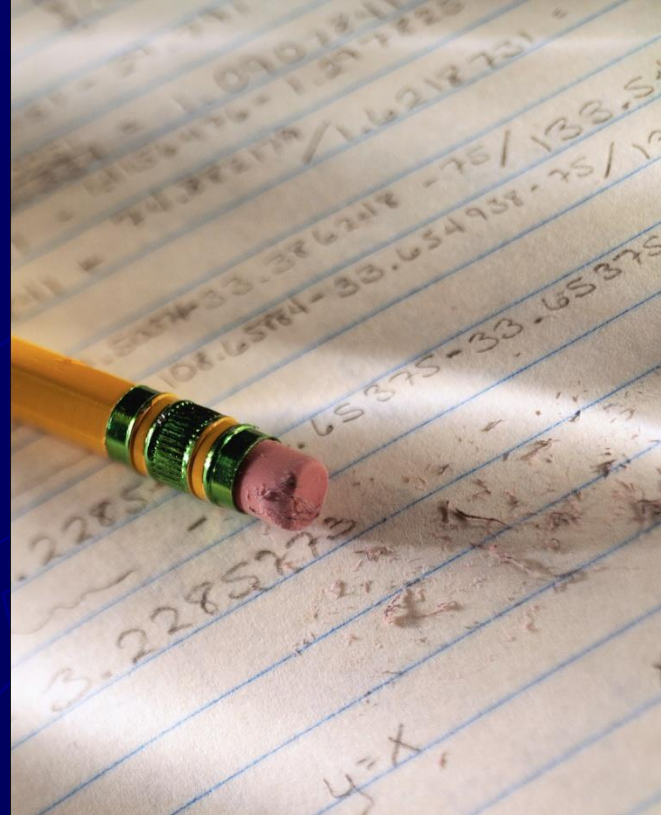




# Qualification Standards

## ▶ PRECEPT 2:

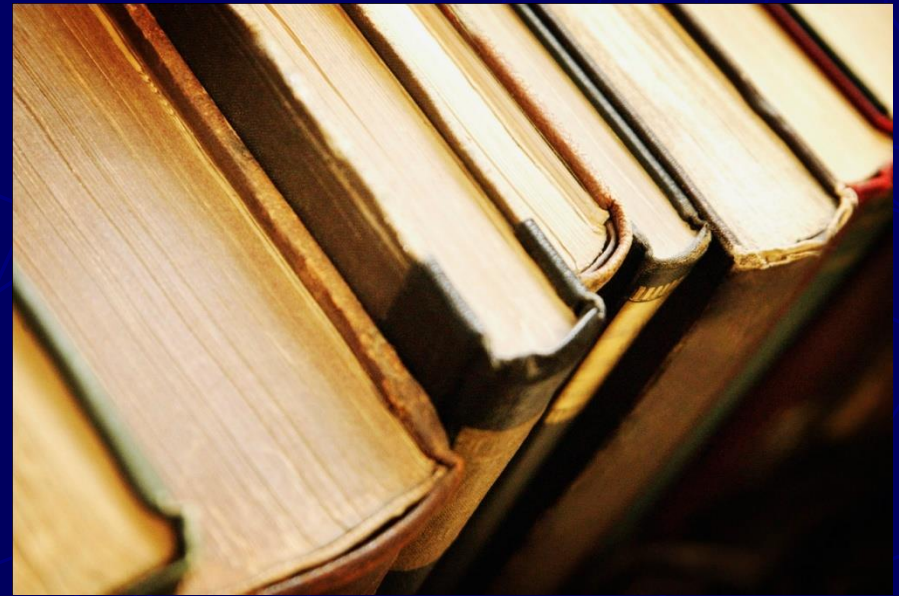
An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so on the basis of basic and continuing education and experience and only when the Actuary satisfies applicable qualification standards.



# 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.



# 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.



# 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.



# 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.

# 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.

# 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.

# 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.





# 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.



# 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.



# 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.

# 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.

# 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.



# Professional Guidance

## ASOP 23: Data Quality

### **Reliance on Data Supplied by Others**

- In most situations, the data is provided to the actuary by others
- The accuracy and comprehensiveness of data supplied by others are the responsibility of those who supply the data
- The actuary may rely on data supplied by others, but should review the data for reasonableness and consistency, unless, in the actuary's professional judgment, such review is not necessary or not practical
- The actuary is not required to do any of the following:
  - ▶ determine whether data or other information supplied by others are falsified or intentionally misleading;
  - ▶ develop additional data compilations solely for the purpose of searching for questionable or inconsistent data; or
  - ▶ audit the data

# Professional Guidance

ASOP 36 :Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves

## **Reserve Evaluation**

If the actuary makes use of other personnel within the actuary's control to carry out assignments relative to analyses supporting the opinion, the actuary should review their contributions and be satisfied that those contributions are reasonable.

# Professional Guidance – ASOP 38 Using Models Outside Area of Expertise

## ■ 3.1 Introduction

- ▶ In performing actuarial work, an actuary may find it appropriate to use models that incorporate specialized knowledge outside of the actuary's own area of expertise. When using such a model, the actuary should do all of the following:
  - a. determine appropriate reliance on experts;
  - b. have a basic understanding of the model;
  - c. evaluate whether the model is appropriate for the intended application;
  - d. determine that appropriate validation has occurred; and
  - e. determine the appropriate use of the model.



# Professional Guidance – ASOP 38 Using Models Outside Area of Expertise

## ■ 3.2 Appropriate Reliance on Experts

- ▶ An actuary may rely on experts concerning those aspects of a model that are outside of the actuary's own area of expertise. The experts relied upon may either be the experts who provided the model or other experts. In determining the appropriate level of reliance, the actuary should consider the following:
  - a. Are they experts in the applicable field;
  - b. the extent to which the model has been reviewed or opined on by experts in the applicable field; and
  - c. whether there are standards that apply to the model or to the testing or validation of the model and whether the model has been certified as having met such standards.<sup>21</sup>

# Professional Guidance – ASOP 38 Using Models Outside Area of Expertise

## ■ 3.5 Appropriate Validation

- ▶ The actuary should evaluate the user input and the reasonableness of the model output, including examining the following:
  - a. the results derived from alternate models or methods, where available and appropriate;
  - b. how historical observations, if applicable, compare to results produced by the model;
  - **c. the consistency and reasonableness of relationships among various output results;** and
  - d. the sensitivity of the model output to variations in the user input and model assumptions.

# Professional Guidance – ASOP 38 Using Models Outside Area of Expertise

## ■ 4.3 Disclosures

▶ In communicating the results of actuarial work using a model that incorporates specialized knowledge outside of the actuary's own area of expertise, the actuary should disclose the model(s) used and any adjustments made to the model results. In addition, the actuary should include the following, as applicable, in an actuarial communication:

- if any material assumption or method was prescribed by law
- if the actuary states reliance on other sources and thereby disclaims responsibility; and
- if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of this ASOP

# Professional Guidance

## ASOP 41: Actuarial Communications Subsequent Events

- The actuary should disclose any events that
  - ▶ Became known after the latest information date
  - ▶ Become known to the actuary before the report is issued
  - ▶ Have a material effect on the findings if it were reflected, and
  - ▶ Are not practical to reflect in the report before it is issued

# Professional Guidance

## ASOP 41: Actuarial Communications 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 opinion are no longer valid, and it should explain the reasons for the change

# Professional Guidance

## ASOP 43: Property/Casualty Unpaid Claim Estimates

### **Required Disclosures**

- Significant events, assumptions, or reliances
  - ▶ Disclose those that have material impact on estimates
  - ▶ Disclose assumptions provided by Principal or outside party
  - ▶ Additional disclosure if the actuary cannot determine reasonableness
  
- Type of range (if applicable); Examples include:
  - ▶ Range of estimates of the intended measure
  - ▶ Confidence level - disclose risks
  
- Changes in assumptions, procedures, methods, or models if material
  - ▶ Applicable if study is an update of prior analysis
  - ▶ Discuss reasons for change (not required to quantify)



# Professional Guidance

## ASOP 43 Property/Casualty Unpaid Claim Estimates

### Definition of "Actuarial Central Estimate"

- Estimate that represents an expected value over the range of reasonably possible (but not all possible) outcomes
- Typical actuarial methods do not produce true "expected values" and exclude doomsday and/or systematic shocks in the tail of the distribution
- Estimate that in the actuary's professional judgment, is neither optimistic nor pessimistic
- Definition intended to clarify the concept rather than assign a precise statistical measure, as commonly used actuarial methods typically do not result in a statistical mean

# Professional Guidance

- ▶ Principle 3 of the Statement of Principles Regarding P&C Insurance Ratemaking:
  - Ratemaking should provide for the costs of an individual risk transfer.
  - When the experience of an individual risk does not provide a credible basis for estimating these costs, it is appropriate to consider the aggregate experience of similar risks.



# Professional Guidance

- ▶ Statement of Principles Regarding P&C Insurance Ratemaking Considerations:
  - Actuarial Judgment
    - ▶ Informed actuarial judgments can be used effectively in ratemaking. Such judgments may be applied throughout the ratemaking process and should be documented and available for disclosure.

# Professional Guidance

## CAS Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves

- Principle 3: The uncertainty inherent in the estimation of required provisions for unpaid losses or loss adjustment expenses implies that a range of reserves can be actuarially sound.
- Principle 4: The most appropriate reserve within a range of actuarially sound estimates depends on both the relative likelihood of estimates within the range and the financial reporting context in which the reserve will be presented.

# Professional Guidance

- ▶ CAS Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves – Considerations
  - Credibility
  - Settlement Patterns
  - External Influences