



Casualty Loss Reserve Seminar
September 18, 2008

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The Code of Professional Conduct in Practice:
Ethical Case Studies in Reserving

Agenda

- Importance of Professionalism
- Code of Professional Conduct
- Snappers
 - Small case studies
- Attachment: Code of Professional Conduct



The Importance of Professionalism



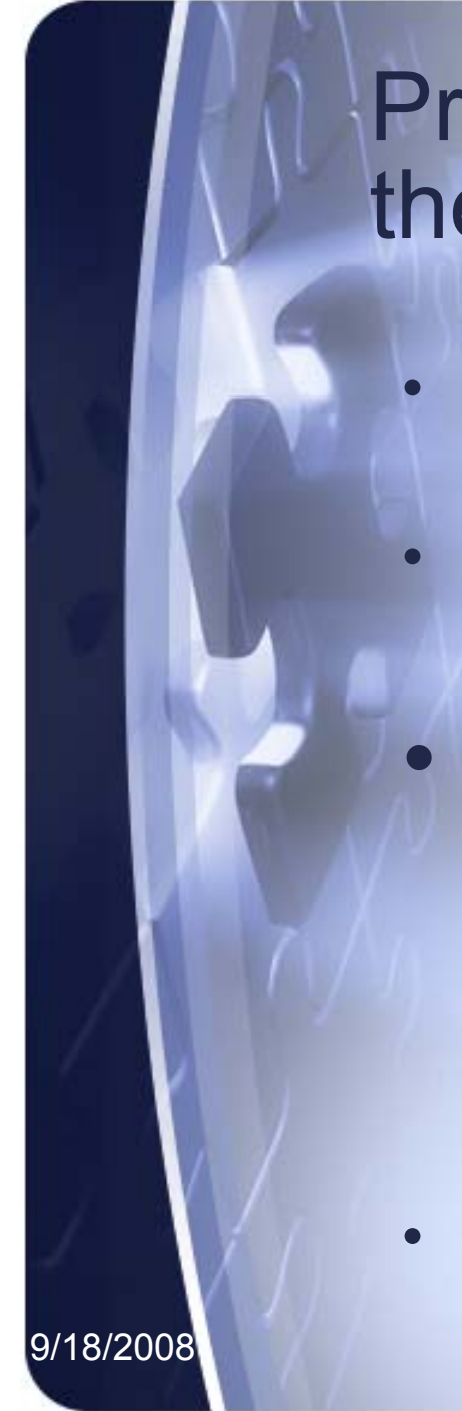
Are Actuaries Considered “Professionals?”

- Bellis et al. identify three elements of professional organizations*
 - Knowledge requirements
 - Value system (e.g. ethics)
 - Organizational structure
- Actuarial organizations possess all three elements

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

Recent Criticisms of Actuaries

- Morris Review (March, 2005)
 - Investigation by Sir Derek Morris into the actuarial profession following the Equitable Life insolvency
 - Brought actuaries under the same regulatory body as accountants (Financial Reporting Council)
- Standard and Poor's article (November, 2003)
 - “Insurance Actuaries: A Crisis of Credibility”
 - Blamed actuaries for reserve shortfalls in early 2000s
 - Quote from article: “Actuaries are signing off on reserves that turn out to be wildly inaccurate. It's an abysmal track record.”
 - #1 Casualty Actuarial story for 2003 (CAS)



Professionalism is Embedded in the Purposes of the CAS

- 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.



Committee on Professionalism Education

- Primary focus: Course on Professionalism
 - Syllabus and materials
 - Staffing and administration of course
 - Recruiting speakers (opening: 15-20 minutes, lunch: 30 minutes)
- Increased focus: Education for existing members
 - Concurrent sessions at CAS meetings
 - Regional affiliate presentations
 - Electronic delivery (e.g. webinars)

An abstract blue-toned background featuring a stylized globe on the left with a person silhouette standing on it. The scene is illuminated by a bright light source from the right, creating a lens flare effect. The overall aesthetic is professional and modern.

Code of Professional Conduct

Code of Professional Conduct

- Categorized into 11 divisions with 14 precepts and 23 annotations:
 - Precepts: “Professional and ethical standards with which an actuary must comply”
 - Annotations: “Explanatory, educational and advisory material”
- “An Actuary must be familiar with, and keep current with, revisions to the code of professional conduct, its precepts and annotations”

Key Definitions within Code

- Actuary
 - A member of an organization that has adopted the Code (e.g. CAS)
- Principal
 - Client or employer of Actuary
- Actuarial Services
 - Provided to Principal by individual acting in the capacity of an actuary

Key Definitions within Code

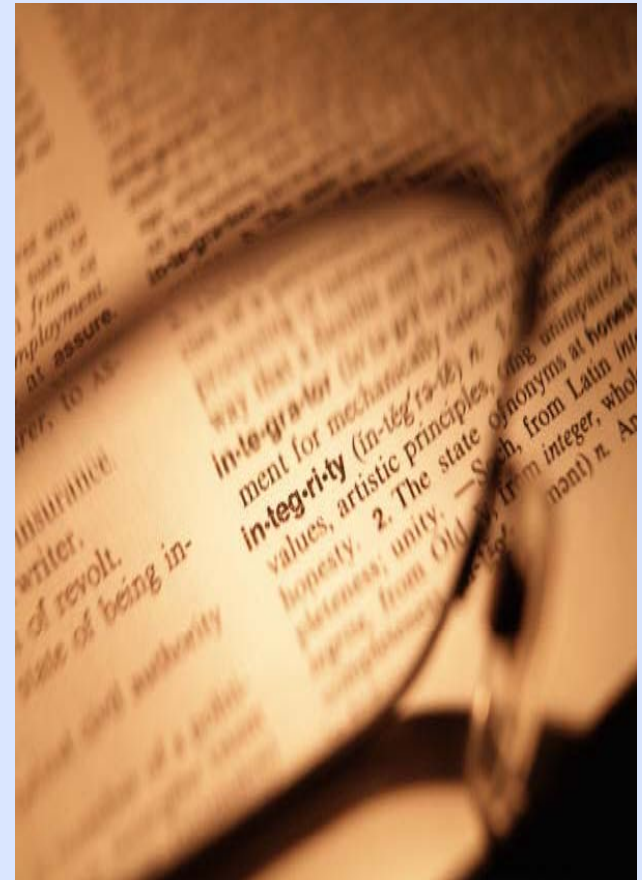
- Actuarial Communication
 - Written, oral, or electronic issued by Actuary with respect to Actuarial Services
- Confidential Information
 - Information not in public domain obtained as a result of providing Actuarial Services to a Principal

Key Definitions within Code

- Law
 - Statutes, regulations, judicial decisions, and other statements having legally binding authority
- Recognized Actuarial Organization
 - An organization that has been accepted for full membership in the International Actuarial Association or a standards setting, counseling, or discipline body to which authority has been delegated by such an organization

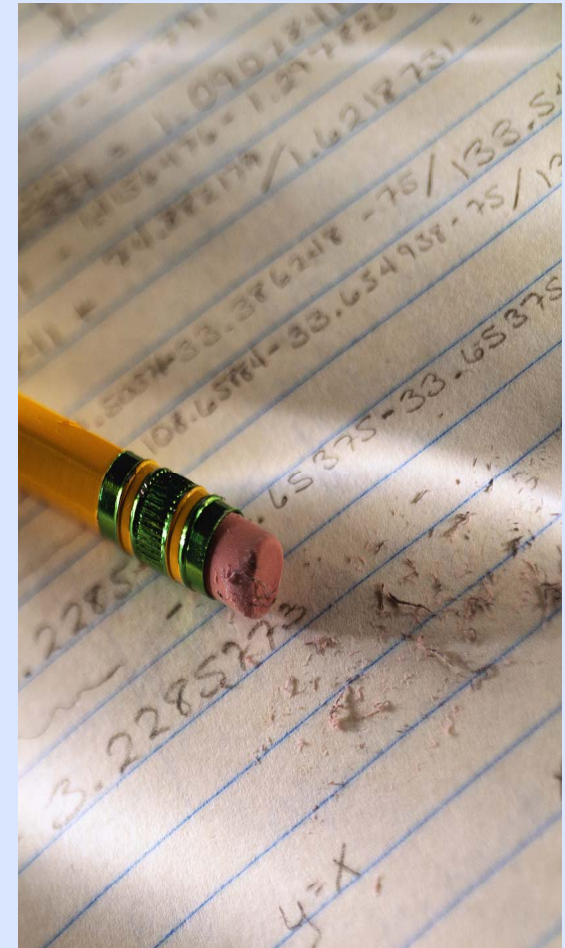
Professional Integrity

- **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.



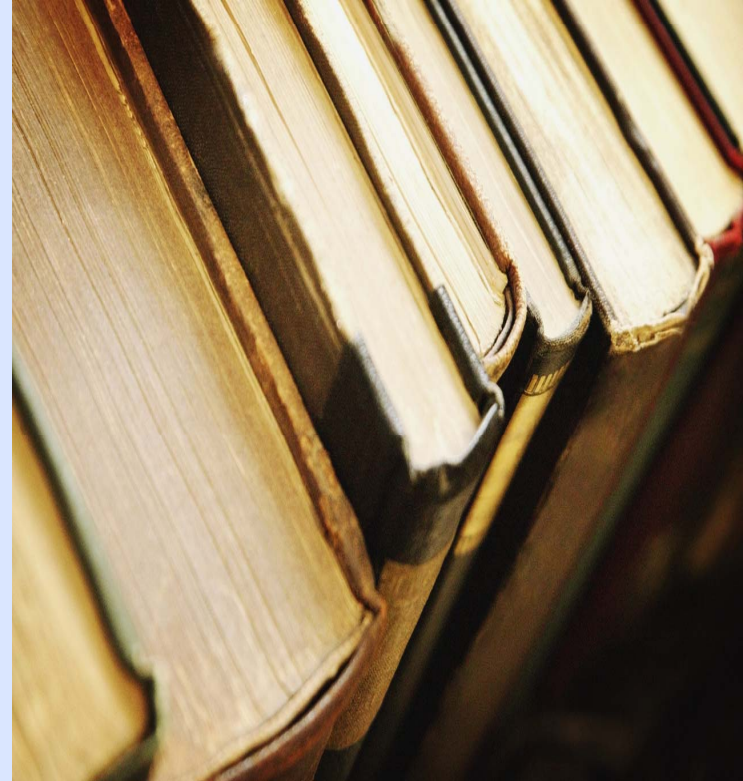
Qualification Standards

- **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:**

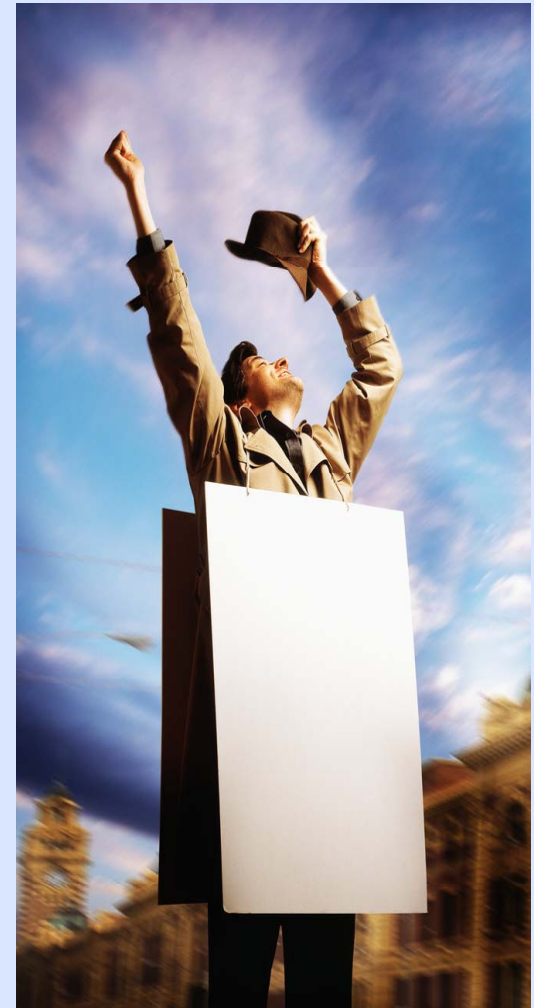
An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.



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

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





Code of Professional Ethics for Candidates

- Effective with the May 2008 exams
- Similar to Code of Conduct for members
- CAS now consistent with other societies (e.g. CPCU and CFA Institute) in requiring candidates to abide by ethical standards
- New discipline procedure also developed as the ABCD does not have jurisdiction over candidates

“SNAPPERS”

(Audience Participation
Highly Encouraged!)



Snappers Overview

- Snappers = small case studies
- Structure of session
 - Read the case together.
 - Discuss opposing viewpoints
 - Strict: Follow the rules regardless of the situation.
 - Practical: Be practical in the application of rules.
 - See if there is a common ground.
- Disclaimers:
 - Exercise is for education purposes only.
 - Any opinion expressed by anyone does not represent the opinion of their employer.
 - No authoritative guidance should be expected of the moderator or panelists.

Snapper # 1

As the chief actuary for your company, you annually perform a reserve analysis using appropriate methods. This year, senior management hires an outside consultant to perform the reserve analysis as well.

The consultant's reserve estimates show the company to be materially redundant. You believe your results are reasonable, but your management insists that the consulting actuary has more reserving expertise than you, and demands that you reduce your estimates.

What, if anything, should you do?

Snapper # 2

A consulting actuary is hired to review a company's loss reserves and subsequently issues an unqualified Statement of Actuarial Opinion. The actuary for the company's audit firm estimates a deficiency in the reserves when she performs her review, and as a result the auditor will not sign off on the company's financial statement.

Discussions between the two actuaries become heated. Eventually, the actuary for the audit firm issues a statement to the company, as well as to the regulators criticizing the consulting actuary's analysis.

Is the approach used by the actuary for the audit firm appropriate?

Snapper # 3

You are the 1st FCAS employed by a small monoline writer of Auto Extended Warranty coverage, where loss experience is almost non-existent for the 1st 36 months. The consulting actuary who performed the reserve review in the past set ultimate loss ratios high enough to yield an underwriting loss, although the underwriters are convinced the book is profitable. (CY results for this growing line support the UWs' view.) The portfolio underwent major re-underwriting 3 years ago, invalidating nearly all useable history. What is your course of action?

- (By the way, as part of senior management, you participate in the corporate profit-sharing plan.)

Snapper # 4

Your systems vice president recently informed you that there was an error in the loss triangles provided for your loss analysis as of March 31, 2008. Although the company has already booked your reserve estimate, you re-estimate the March 31 reserves with the corrected data and it produced reserve estimates that are 15% higher than your previous best estimate. Because of recently passed tort reform, you expect your loss experience will improve throughout 2008 and that the difference will become immaterial by the end of 2008. Your CEO shares your expectations about the improved experience and wants you to amortize the difference throughout 2008. What do you do?

Snapper # 5

You are an actuary and have been engaged by a company to review the reserves for a potential acquisition. You perform your own independent study and, after signing a confidentiality agreement, also received copies of the last two actuarial studies performed on the target company. Your reserve estimate is significantly higher than the target's carried reserves. You reviewed the target's actuarial studies and found a flaw in the methodology that, if corrected, would cause the target to become insolvent. You attempt to contact the target company's actuary to make sure you are interpreting the results correctly and he has not returned your calls. What do you do?



Now... It's Your Turn

Any situations involving “a friend of yours?”



Thanks for Your Participation!