

CASUALTY LOSS RESERVE SEMINAR

Professionalism and the ABCD

September 11 and 12, 2017

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Antitrust Notice

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It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.

Actuarial Board for Counseling and Discipline

- This presentation is intended for instructional and illustrative purposes. All opinions expressed are those of the presenter and do not represent those of the ABCD.

Introduction

- Hallmark of any Profession, such as actuarial practice, includes:
 1. A Code of Professional Conduct
 2. Minimum qualification requirements
 3. Technical standards of practice, and
 4. A counseling and discipline body
- To remain independent, it is critical that the actuarial profession appropriately monitor the quality of its work and the behavior of its members

How Actuaries Self-Regulate

- This means if actuaries see something that does not appear to follow the Code we do something about it.
- It is not just what you do personally, but how you hold all others in the profession accountable.
- If someone questions your work; cooperate in answering the question.
- Not intended to address inconsequential things; therefore only addresses “apparent, unresolved, material violations” of the Code.

Agenda

- Background on ABCD
- Code of Professional Conduct
- Case Studies

Actuarial Board for Counseling and Discipline

ABCD was established in 1991 by the US actuarial organizations to:

- Interpret the Actuarial Standards of Practice
- Investigate alleged violations of the Code of Professional Conduct by members and recommend discipline to the member organizations
- Provide guidance (counsel) to members
- Mediate disputes between members and others.

Member

Area of Practice

| | |
|--|----------|
| Richard A. Block, Chairperson | Pension |
| David F. Ogden, Vice Chairperson | Health |
| Deborah M. Rosenberg, Vice Chairperson | Casualty |
| David L. Driscoll | Pension |
| Janet M. Carstens | Health |
| Godfrey Perrott | Life |
| Allan W. Ryan | Life |
| John T. Stokesbury | Pension |
| John P. Tierney | Casualty |

Actuarial Board for Counseling and Discipline

2016 Discipline Case Statistics
From ABCD 2016 Annual Report

| | | Pending From 2015 and Earlier | Received in 2016 | TOTAL |
|-------------------|----------|--|---------------------|-------|
| Practice Areas | Casualty | 3 | 3 | 6 |
| | Health | 3 | 0 | 3 |
| | Life | 0 | 4 | 4 |
| | Pension | 8 | 12 | 20 |
| | Total | 14 | 19 | 33 |

Actuarial Board for Counseling and Discipline

- While there were 33 discipline cases handled by the ABCD in 2016, there were **108** Requests for Guidance provided by the ABCD
- Good counseling can help a professional avoid a discipline scenario!

ABCD Procedures

- All ABCD inquiries, guidance and mediation are confidential, unless:
 - Actuary makes public or agrees to publication
 - Court requires disclosure
 - Redacted, generic situation used for educational purposes

An ABCD Inquiry

- The ABCD investigates cases involving members of:
 - The American Academy of Actuaries
 - The American Society of Pension Professionals and Actuaries
 - The Casualty Actuarial Society
 - The Conference of Consulting Actuaries
 - The Society of Actuaries
- Special procedures apply in Canada and Mexico

An ABCD Inquiry

- Initiated by complaints from actuaries, the public or by published news accounts
- It is a fact-finding effort, not an adversarial forum
- Examines whether or not an actuary materially violated the Code of Professional Conduct and **not whether the actuary is liable for damages**

Request for Guidance

- Private guidance by ABCD member
- Expresses member's own opinion
- Requester's identity is not disclosed outside of the ABCD
- Depending on the conversation, the information could prompt an ABCD investigation

Request for Guidance

Examples of RFG Topics

- How do I know if I am qualified?
- How can I become qualified?
- How can I do a job that involves more than one area of expertise?
- How much can I rely on my supervisor or my staff?
- How much documentation of my work should I save?
What if I leave my company?

Request for Guidance

More Examples of RFG Topics

- When should I refuse an assignment?
- When should I make a complaint about another actuary?
- When is a violation of the Code material?
- How do I meet Qualification Standards?
- Should I file a Complaint?
- What are my responsibilities to my Client if I have not been paid?

Requests for Guidance Relating to Reserving

- Frequently, the AAA Practice Note titled "*Statements of Actuarial Opinion On Property and Casualty Loss Reserves*" has the answer(s)
- ***This is a valuable resource that every reserving actuary should refer to often!***

Mediation

- If all parties agree
- Facilitate resolution of issue without inquiry

Contacting the ABCD

- **Letter:** 1850 M St., N.W., Suite 300, Washington, D.C. 20036
- **Telephone:** (202) 223-8196; (202) 872-1948 (fax)
- **Website:** www.abcdboard.org
- Contacting any individual ABCD member or ABCD staff (contact information on website)

U.S. Code of Professional Conduct

- The revised U.S. Code of Professional Conduct (“Code”) was adopted by the five U.S.-based actuarial organizations (Academy, ACOPA, CAS, CCA & SOA), and took effect January 1, 2001.
- The Code sets forth professional/ethical standards for actuarial members of the five U.S.-based actuarial organizations.

U.S. Code of Professional Conduct

- The Code contains 14 Precepts, along with annotations providing further guidance on adhering to the Precepts.
- The Precepts are standards that must be followed by credentialed actuaries who are members of one of the U.S.-based organizations or whose member organizations require their members to follow the U.S. Code.

U.S. Code of Professional Conduct

- **Precept 1 Professional Integrity:**

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**

- This is the most common source of discipline actions

U.S. Code of Professional Conduct

- **Precept 2 Qualification Standards:**

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.

- This is the second most common source of discipline actions

U.S. Code of Professional Conduct

- **Precept 3 Standards of Practice**

An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.

U.S. Code of Professional Conduct

- **Precept 4 Communications**

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

- This is the third most common source of discipline actions

U.S. Code of Professional Conduct

- **Precept 5 Communications**

Appropriately identify the principals and describe the capacity in which you serve.

U.S. Code of Professional Conduct

- **Precept 6 Disclosure**

Make appropriate and timely disclosure to present or prospective principals of sources of all direct and indirect material compensation you or your firm receives that relates to any assignment for that principal.

U.S. Code of Professional Conduct

- **Precept 7 Conflict of Interest**

Do not perform actuarial services unless:

- your ability to act fairly is unimpaired;
- you have disclosed conflict to all; and
- you secure agreement from all principals.

U.S. Code of Professional Conduct

- **Precept 8 Control of Work Product**

Take reasonable steps to ensure your services are not used to mislead other parties.

U.S. Code of Professional Conduct

- **Precept 9 Confidentiality**

Do not disclose confidential information to another unless authorized by principal OR required by law.

U.S. Code of Professional Conduct

- **Precept 10 Courtesy and Cooperation**

Perform actuarial services with courtesy and professional respect and cooperate with others in the principal's interest.

U.S. Code of Professional Conduct

- **Precept 11 Advertising**

Do not engage in advertising or business solicitation activities that are false or misleading.

U.S. Code of Professional Conduct

- **Precept 12 Titles and Designations**

Use membership titles and designations only in conformity with authorized practices.

U.S. Code of Professional Conduct

- **Precept 13 Violations of the Code**

If you know of an apparent, unresolved, material violation of the Code by another actuary and have attempted to resolve that violation through discussions that have been unsuccessful, you should disclose the violation to the ABCD.

U.S. Code of Professional Conduct

- **Precept 14 Cooperation with ABCD**

Respond promptly, truthfully and fully to requests from the ABCD subject to restrictions on confidentiality and those imposed by law.

Case Study #1

- A client of yours has retained another independent firm to provide a second opinion on some of your work.
- The other firm is a competitor.
- The other firm is now requesting information from you.
- They ask for copies of your notes, test runs and assumption setting analysis.

Case Study #2

- You are riding in an elevator with your company's CFO. The CFO asks; "Without performing any calculations, what do expect next year's reserves to be?"
- What should you be thinking?
 1. Can you provide a meaningful answer?
 2. Will the principal rely on your information?
 3. Do you expect the answer to be considered an Actuarial Communication?

Case Study #3

- Suzy Q, FCAS, submits a report to her client. All of her assumptions are included in the report and are well documented.
- Suzy Q doesn't include any information about the methodology she used because it is the same methodology used by her company for the past 10 years.
- When Lucy the auditor, FCAS, asks why Suzy Q did not document her methodology, Suzy Q states that the intended user (her client) understands what she did.

Case Study #4

- Stuey is an FCAS. He was Chief Actuary for Ajax Ins. for 20 years but 2 years ago he was appointed as CEO with no actuarial responsibilities.
- Stuey attends a board meeting where he argues with Thurston, the current Chief Actuary, about the reserve estimates for a given line of business. The argument is about Thurston's assumptions and conclusion, and Stuey ultimately mandates an assumption that he states Thurston should use.
- Minutes for the Board meeting include the discussion between Stuey and Thurston.

Case Study #5

- You take over the preparation of the statutory opinion on reserves for the XYZ Company from your boss, Bill, who is retiring. Bill tells you the budget for the case is tight and you do not need to review the results carefully.
- A year later you find that there were material errors in the prior year's valuation that you signed.

Case Study #6

You are an independent consultant and your client is an accounting firm that is auditing an insurance company. Your job is to review the booked reserves for reasonability. In reviewing the work of the company's appointed actuary, you find what you consider to be material deficiencies in the analysis and documentation of the reserve valuation. You don't feel that you can sign off on the reserves and you contact the ABCD for guidance.

Maintaining Your Good Reputation

- Read “Up To Code” in Contingencies.
- Maintain qualification standards.
- Contact ABCD for confidential guidance.
- Refer often to the AAA Practice Note.
- Take seriously your obligations under Precept 13.
- If it feels wrong...it probably is.