



# Lights! Camera! Professionalism!

## CAS Casualty Loss Reserve Seminar

September 5-7, 2018



# Antitrust Notice

- **The Casualty Actuarial Society is committed to adhering strictly to the letter and spirit of the antitrust laws. Seminars conducted under the auspices of the CAS are designed solely to provide a forum for the expression of various points of view on topics described in the programs or agendas for such meetings.**
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# Legal Disclosure

The views expressed by the panelists are their own and may not necessarily reflect those of their respective employers.





# Agenda

- Professional Guidance
- Skit
- Small Group Discussion
- Large Group Discussion
- Takeaways





# Professionalism Skit: Just an Opinion

Committee on Professionalism  
Education



# Professional Guidance—AAA

- Precept 1 of the AAA Code of Conduct:  
“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.”



# Professional Guidance—AAA (continued)

- ANNOTATION 1-2. An Actuary shall not provide Actuarial Services for any Principal if the Actuary has reason to believe that such services may be used to violate or evade the Law or in a manner that would be detrimental to the reputation of the actuarial profession.
- ANNOTATION 1-4. An Actuary shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on the actuarial profession.



# Professional Guidance—AAA (continued)

- PRECEPT 8. An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties.
  - ANNOTATION 8-1. An Actuarial Communication prepared by an Actuary may be used by another party in a way that may influence the actions of a third party.





# Professional Guidance—AAA (continued)

- PRECEPT 13. An Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary should first discuss with the other Actuary. If not attempted or not successful, the Actuary shall disclose such violation to the ABCD (unless contrary to Law or would divulge Confidential Information.)
  - ANNOTATION 13-1. A violation of the Code is deemed to be material if it is important or affects the outcome of a situation, as opposed to a violation that is trivial, does not affect an outcome, or is one merely of form.



# CAS Code of Professional Ethics for Candidates—Adopted 1/1/08

An actuarial candidate shall:

- Rule 1: act honestly, with integrity and competence, to uphold the reputation of the actuarial profession (Precept 1 of AAA Code of Professional Conduct).
- Rule 2: not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on the actuarial profession (Precept 1 Annotation 1-4 of AAA Code).
- Rule 3: perform Actuarial Services with courtesy & professional respect and shall cooperate with others in the Principal's interest (Precept 10 of AAA Code).



# ASOP#43 – P&C Unpaid Claim Estimates

- 3.6.1 Methods and Models—The actuary should consider methods or models for estimating unpaid claims that, in the actuary’s professional judgment, are appropriate.
- The actuary should consider whether a particular method or model is appropriate in light of the purpose, constraints, and scope of the assignment. For example, an unpaid claim estimate produced by a simple methodology may be appropriate for an immediate internal use. The same methodology may be inappropriate for external financial reporting purposes.



# ASOP#36 Statements of Actuarial Opinion

## Section 3.7 Reserve Evaluation

- The actuary should consider a reserve to be reasonable if it is within a range of estimates that could be produced by an unpaid claim estimate analysis that is, in the actuary's professional judgment, consistent with both ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*, and the identified stated basis of reserve presentation.



# ASOP#36 Statements of Actuarial Opinion

## Section 3.7.2 Use of Another's Analysis

- The actuary should only make use of another's analyses or opinions when, it is reasonable to do so. In making this determination, the actuary should consider the following:
  - a. the amount of the reserves covered in comparison to the total reserves;
  - b. the nature of the exposure and coverage;
  - c. the way in which reasonably likely variations in estimates covered by another's analyses or opinions may affect the actuary's opinion on the total reserves subject to the actuary's opinion; and
  - d. the credentials of the individual(s) that prepared the analyses or opinions.
- Where, in the opinion of the actuary, the analyses or opinions of another need to be modified or expanded, the actuary should perform such analyses as necessary to issue an opinion on the total reserves.



# ASOP#36 Statements of Actuarial Opinion

## Additional Disclosures

- a. The actuary should disclose the nature of changes in assumptions, procedures, or methods from those employed in the most recent prior opinion prepared in accordance with this standard, unless the actuary concludes the changes are not likely to have a material effect on the actuary's unpaid claim estimate. This standard does not require the actuary to quantify the impact of such changes.



# ASOP#41 - Requirements for Actuarial Communications

- 3.1.1 Form and Content—The actuary should take appropriate steps to ensure that the form and content of each actuarial communication are appropriate to the particular circumstances, taking into account the intended users.



# Skit Background

- Marian is an FCAS working as a consulting actuary. He performs a loss reserve analysis and NAIC opinion preparation every year for a publically traded medical professional writer in Pennsylvania called Good Medicine Insurance Company (Good Med).





# Skit Background, Con't

- Claude works for Good Med as a reserving actuary and is in charge of performing the internal reserve analyses which are used to determine Good Med's carried amounts. Claude is one exam away from his ACAS designation. Good Med's plan is to bring all of the reserving and statutory opinion work in-house once Claude is credentialed and able to sign NAIC opinions. Marian is aware of the fact that Good Med is just using his work for NAIC compliance.



# Skit Background, Con't

- Marian receives the data on the second of January and works extremely quickly to get Claude a draft report with text and full exhibits by the beginning of February. On the same day Marian sends the draft report, Claude turns over his analysis and complete workpapers to Marian for comparison. Marian reviews the work, which is very difficult to follow, and eventually is able to put together a year by year comparison of ultimate loss estimates.





# Lights, Camera, Action!



# Skit Background, Continued

- On the 19<sup>th</sup> of February, Good Med releases earnings and is very boastful in the announcement that they have had large favorable development on prior years estimates and more than enough to offset the adverse development experienced in the preceding year. The stock price shoots up 10% on the announcement. Marian sees this headline on the morning newswire and is very confused. She thought that there should be adverse development. The following day Claude sends Marian the Schedule P information.



# Skit Background, Continued

- Marian adds an additional column for the booked amounts in the Schedule P and sees that they are very different from both her own estimates and Claude's estimates by year; however, the total seems to be almost exactly the same as Claude's total estimates. Marian sends the exhibit to Claude and asks him why the carried amounts in Schedule P differ from the estimates in his analysis. Claude replies that he found an error in the worksheet he originally provided and attaches the corrected analysis. Marian picks up the phone and calls Claude.



# General Questions

## Issues:

- Is Good Med manipulating the estimates to boost the price of the stock? If so, does Marian have a duty to report this type of behavior? To the SEC????
- Claude is not an actuary, he is a student, so how does the actuarial candidate code apply in this case?
- Can Marian still sign a reasonable opinion? Should she qualify that it is reasonable in total and not by coverage year?



# General Questions

Three Questions for Marian to Consider:

1. Will she be able to look herself in the mirror?
2. How would this look as a front page story on the NY Times?
3. If Marian lacks moral courage and takes the easy way out, what are the consequences?



# Key Takeaways

- Make sure you are qualified to do the work you are doing. Do your own due diligence before relying on others.
- Know the Standards that apply.





# Professionalism Skit: The Reinsurer's Schedule P Dilemma

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# Professional Guidance: Professional Integrity

- CAS (and AAA) Precept 1 of the Code of Conduct:  
“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.”



# Professional Guidance

## ● ASOP 41: Actuarial Communications

### ● SECTION 2. DEFINITIONS

The terms below are defined for use in this actuarial standard of practice.

#### 2.1 ACTUARIAL COMMUNICATION

- A written, electronic, or oral communication issued by an actuary with respect to actuarial services.

#### 2.2 ACTUARIAL DOCUMENT

- An actuarial communication in any recorded form (such as paper, e-mail, spreadsheets, presentations, audio or video recordings, web sites, and court or hearing transcripts). Notes taken by someone other than the actuary are not considered actuarial documents.

#### 2.3 ACTUARIAL FINDING

- The result (including advice, recommendations, opinions, or commentary on another actuary's work) of actuarial services.



# Professional Guidance

- ASOP 41: Actuarial Communications

- SECTION 2. DEFINITIONS (CONTINUED)

The terms below are defined for use in this actuarial standard of practice.

#### 2.4 ACTUARIAL REPORT

- The set of actuarial documents that the actuary determines to be relevant to specific actuarial findings that is available to an intended user.

#### 2.5 ACTUARIAL SERVICES

- Professional services provided to a principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.



# Professional Guidance

- ASOP 41: Actuarial Communications

- 3.14 Identification of Responsible Actuary

- **An actuarial communication should clearly identify the actuary responsible for it.** When two or more individuals jointly issue a communication (at least some of which is actuarial in nature), the communication should identify all responsible actuaries, unless the actuaries judge it inappropriate to do so. The name of an organization with which each actuary is affiliated also may be included in the communication, but the actuary's responsibilities are not affected by such identification. Unless the actuary judges it inappropriate, the actuary issuing an actuarial communication should also indicate the extent to which the actuary is available to provide supplementary information and explanation.



# Professional Context

- The NAIC Statements of Actuarial Opinion Instructions
  - The SCOPE should include a paragraph regarding the data relied upon in forming the opinion, including:
    - Who provided the data, and
    - The Appointed Actuary reconciled the data to Schedule P, Part 1 of the Company's Annual Statement.



# Skit Background

- August West Reinsurance Company is a broker-market reinsurer, writing both Proportional and Excess-of-Loss Reinsurance, with mostly multi-line treaties. They are a relatively small operation, and as such are a “following market” on most of the business they write. It is year-end and Schedule P needs to be constructed.



# Skit Background

- **Jerry** is an FCAS, Brand new Head of the Actuarial Department at August West Reinsurance Company (AWRC)
- **Bobby** is an ACAS, 10-year employee in the Reserving Department at AWRC
- **Philis** the CFO of AWRC







# Lights, Camera, Action!



# General Questions

- Are there any professionalism gray areas presented in this skit?
- ASOP 41 Questions to Consider:
  - Is the preparation of Schedule P covered by definitions in ASOP 41?
  - If so, does the first sentence of 3.1.4 disqualify it since the preparer of Schedule P is NOT identified?
  - If not, is the CFO (or anyone who signs the Annual Statement) really “on the hook” (unless the Actuary is a signer)?



# General Questions

- CAS Code of Professional Conduct

## Questions to Consider:

- Regardless of whether ASOP 41 applies, is there a violation of Precepts 1 and/or 8 in this scenario?
- If so, is there “dishonesty, fraud, deceit, or misrepresentation” if you just let the (mismatched) data populate the schedule?
- OR, if so, is there “dishonesty, fraud, deceit, or misrepresentation” if you make adjustments to the data to better-represent company results/underwriting outcomes?





# Small Group Discussion



# General Questions

- Are there any professionalism gray areas presented in this skit?
- ASOP 41 Questions to Consider:
  - Is the preparation of Schedule P covered by definitions in ASOP 41?
  - If so, does the first sentence of 3.1.4 disqualify it since the preparer of Schedule P is NOT identified?
  - If not, is the CFO (or anyone who signs the Annual Statement) really “on the hook” (unless the Actuary is a signer)?



# General Questions

- CAS Code of Professional Conduct

## Questions to Consider:

- Regardless of whether ASOP 41 applies, is there a violation of Precepts 1 and/or 8 in this scenario?
- If so, is there “dishonesty, fraud, deceit, or misrepresentation” if you just let the (mismatched) data populate the schedule?
- OR, if so, is there “dishonesty, fraud, deceit, or misrepresentation” if you make adjustments to the data to better-represent company results/underwriting outcomes?





# Large Group Discussion



# Alternatives

- Alternative 1 – Letting the data populate the schedule, even though the results do not represent, or perhaps even misrepresent, the true outcome of the company's operations
- Alternative 2 – Is it just an ethical dilemma that the actuary can (without a professional issue) just “let go” without any “fallout”? (“it is what it is?”).
- Alternative 3 – Is it just an ethical dilemma that the actuary cannot (without a professional issue) just “let go” without any “fallout”? (“I cannot let consumers of the schedule see, and perhaps believe the output?”)







# Professionalism Skit: Cyber Security Breach

Committee on Professionalism  
Education



# Professional Guidance

- Precept 1 of the Code of Conduct: “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.”



# Professional Guidance

- Precept 9 of the Code of Conduct: “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.”



# Professional Guidance

- ASOP 36: Statements of Actuarial Opinion Regarding P/C Loss and Loss Adjustment Expense Reserves
  - 2.10 Review Date
    - The date (subsequent to the valuation date) through which material information known to the actuary is included in forming the reserve opinion.



# Professional Guidance

- ASOP 36: Statements of Actuarial Opinion Regarding P/C Loss and Loss Adjustment Expense Reserves
  - 3.11 Statements of Actuarial Opinion
    - d. Qualified Opinion:
      - The actuary should issue a qualified statement of actuarial opinion when, in the actuary's opinion, the reserves for a certain item or items within the scope of the opinion are in question because they cannot be reasonably estimated or the actuary is unable to issue an opinion on the reserves for those items.



# Professional Guidance

- ASOP 36: Statements of Actuarial Opinion Regarding P/C Loss and Loss Adjustment Expense Reserves
  - 4.2(d) Additional Disclosures
    - If the actuary issues a qualified opinion, the actuary should disclose in the opinion the item or items to which the qualification relates, the reasons for the qualification, and the amounts for such items, if disclosed by the entity, that are included in the reserve.



# Professional Guidance

- ASOP 36 - 4.2(d) Additional Disclosures (*continued*)
  - If the amounts for such items are not disclosed by the entity, the actuary should disclose that the reserve includes unknown amounts for such items. The actuary should also disclose whether the reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, except for the item or items to which the qualification relates.



# Professional Guidance

- ASOP 41: Actuarial Communications
  - 3.4.5 Information Date of Report
    - The actuary should communicate to the intended user the date through which data or other information has been considered in developing the findings included in the report.





# Professional Guidance

- ASOP 43: P/C Unpaid Claim Estimates
  - 4.1 The actuary should disclose the following in an appropriate actuarial communication:
    - f. significant events, assumptions, or reliances, if any, underlying the unpaid claim estimate that, in the actuary's professional judgment, have a material effect on the unpaid claim estimate.
      - The actuary should use professional judgment to determine whether further disclosure would be appropriate in light of the purpose of the assignment and the intended users of the actuarial communication





# Professional Guidance

- ASOPs Applicable to All Actuarial Work Products
  - ASOP 1 – Introductory ASOP
  - ASOP 23 – Data Quality
  - ASOP 41 – Actuarial Communications





# Professional Guidance

- Other relevant professionalism documents for reserving:
  - **Statement of Principles Regarding Property and Casualty Unpaid Claims Estimates**



# Skit Background

Cameron (Cam) is the head of the claims department for “Pritchett's Fidelity & Guarantee”, a large insurance company writing a large book of Directors and Officers (D&O) Liability Insurance for Fortune 500 companies.

Cam and his legal team handle the lead defense on many securities class action lawsuits filed by a class of stockholders who have suffered a financial loss as the result of negligence by the directors of the companies which they insure.



# Skit Background

Due to the potential discoverability of case reserves and the high profile nature of these cases, only nominal signal reserves are ever recorded in the claims system (\$1 for each open claim). To assist the reserving actuaries in appropriately estimating the unpaid claim estimates, Cam provides critical details about the likelihood of settlement for each claim that is still being litigated. This information is disseminated in the form of a document called the “Signal Reserves Report” which details Cam’s opinion on the likelihood of settlement and the resulting settlement amounts for each case.



# Skit Background

The “Signal Reserves Report” is updated in early January by Cam and emailed to the internal reserving actuaries. Based on the information in the report, a probability of settlement is assigned by the actuaries and weighted by the expected settlement amount for each claim, and this forms the basis of the D&O unpaid claim estimate.



# Skit Background

Mitchell is the chief reserving actuary at Pritchett's Fidelity & Guarantee. Mitchell is a Fellow of the Casualty Actuarial Society and signs the NAIC Statement of Actuarial Opinion for Pritchett.

Cam walks into Mitchell's office a few days after emailing him the Signal Reserve Report in early January.





# Lights, Camera, Action!





# General Questions

- Does Mitchell have an obligation to report this breach?
  - to his boss?
  - to the CEO?
  - to the public?
- How should this data breach impact Mitchell's unpaid claim estimates?
- Is the data breach itself confidential information?





# Small Group Discussion



# General Questions

- Does Mitchell have an obligation to report this breach?
  - to his boss?
  - to the CEO?
  - to the public?
- How should this data breach impact Mitchell's unpaid claim estimates?
- Is the data breach confidential information?





# Large Group Discussion



# Alternatives

- Assume the data breach will not impact your unpaid claim estimates or the Statement of Actuarial Opinion and proceed.
- Issue a qualified Statement of opinion
  - What additional disclosures are required?
  - Are the additional disclosures confidential information?
- What if the phishing attack was discovered 6 months after the unqualified opinion was signed?



# Key Takeaways

- As technology evolves, understand the potential risks introduced with that evolution
- Understand your obligations as an actuary – to your principal, to the general public, and to the profession
- Know the Standards that apply.

