



Lights! Camera! Professionalism!

Casualty Loss Reserve Seminar
September 16-18, 2019



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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: Precept 10 Requirements



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.
 - Annotation 1-1 -- An Actuary shall perform Actuarial Services with skill and care.



Professional Guidance

Precept 10 of the Code of Conduct: An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.

- Annotation 10-5: When a Principal has given consent for a new or additional actuary to consult with an Actuary



Professional Guidance

- Precept 10 (cont.): with respect to a matter for which the Actuary is providing or has provided Actuarial Services, the Actuary shall cooperate in furnishing relevant information, subject to receiving reasonable compensation for the work required to assemble and transmit pertinent data and documents.



Professional Guidance

- Precept 13 of the Code of Conduct: 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.



Professional Guidance

- Precept 13 (cont.): If such a 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.



Professional Guidance

- ASOP No. 36 Statements of Actuarial Opinion Regarding P/C Loss and Loss Adjustment Expense Reserves
- ASOP No. 43 P/C Unpaid Claim Estimates



Professional Guidance

- ASOP No. 41 Actuarial Communications
 - - Section 3.2 Actuarial Report – In the actuarial report, the actuary should state the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an



Professional Guidance

- ASOP 41 (cont.): objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report.



Skit Background

Brenda is a relatively new FCAS who has been hired by ABC Insurance Company to serve as their in-house appointed actuary and will be expected to sign the Statement of Actuarial Opinion for submission with their financial statements. She is replacing the former appointed actuary, Gene, an independent consultant whose contract was terminated by the company.



Skit Background (cont.)

In reviewing the workpapers and reports prepared for last year's opinion, Brenda finds a number of issues with Gene's analysis. In addition, some of the exhibits are hard copies only and the source Excel spreadsheets are not in the files. She contacts Gene via email in an effort to set up a time to discuss these issues, but Gene refuses to cooperate or answer any of her questions. Brenda decides that she needs to talk to her boss, the company's CFO.





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General Questions

- Is Gene in violation of Precept 10?
- Is the quality of Gene's work on the prior Opinion possibly a violation of Precept 1?
- Should Gene be forced to cooperate with Brenda without compensation for his time?
- How long is Gene responsible to ABC for the reports he prepared? Does the responsibility ever sunset?



General Questions (cont.)

- Should Gene provide all the spreadsheets to Brenda?
- Should Brenda threaten to report Gene to the ABCD if he refuses to cooperate?
- Should Brenda contact the ABCD for guidance?





Small Group Discussion



General Questions

- Is Gene in violation of Precept 10?
- Is the quality of Gene's work on the prior Opinion possibly a violation of Precept 1?
- Should Gene be forced to cooperate with Brenda without compensation for his time?
- How long is Gene responsible to ABC for the reports he prepared? Does the responsibility ever sunset?



General Questions (cont.)

- Should Gene provide all the spreadsheets to Brenda?
- Should Brenda threaten to report Gene to the ABCD if he refuses to cooperate?
- Should Brenda contact the ABCD for guidance?





Large Group Discussion



Alternatives

- Assuming Gene does not have a conflict, convince the CFO to provide some compensation for his time and spreadsheets.
- Brenda does the best she can with analyzing Gene's work and develops her own spreadsheets.
- Brenda seeks guidance from the ABCD and possibly files a complaint.



Key Takeaways

- Precept 10 requires both courtesy and cooperation with others in the Principal's interest.
- Whenever an actuary is replaced by another actuary for a particular assignment, the potential exists for differences of opinion, particularly in choices of assumptions and methods.
- The level of cooperation is determined on a case by case basis.





Professionalism Skit: Consulting Actuaries



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 2 of the Code of Conduct:

“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”



Professional Guidance

- Precept 3 of the Code of Conduct:

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



Professional Guidance

- Precept 13 of the Code of Conduct:

“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”



Professional Guidance

- From ASOP 36 – 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

- From ASOP 23 – 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

- From ASOP 43 – 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

- From ASOP 41 – 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

- From ASOP 41 – 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



Skit Background

- Costanza and Benes is a small actuarial firm doing consulting work. Their primary work product is Statements of Actuarial Opinion. They've had a stagnant practice for a number of years, with their client base mostly made up of small regional personal lines companies.
- In mid-December, Vandoleigh Insurance Company, a small regional commercial lines carrier looked to engage their services. They've recently fired their long-time opining actuary, and need to appoint a new one by year-end to do complete their Opinion.





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Key Questions

- Guidance from which specific professional standards would have been most helpful in either mitigating or even preventing the firm from landing in their current predicament? Why?
- Do the firm's actions warrant any sort of disciplinary action from the ABCD? If so, what level of discipline and why?





Small Group Discussion



Key Questions

- Guidance from which specific professional standards would have been most helpful in either mitigating or even preventing the firm from landing in their current predicament?
- Do the firm's actions warrant any sort of disciplinary action from the ABCD? If so, what level of discipline and why?



Possible Courses of Action

- Complete new evaluation without updating prior evaluation
- Issue revisions to prior evaluation prior to completing new evaluation
- Go to the ABCD for guidance
- Report George to the ABCD?



Key Takeaways

- As Actuarial analyses gets more and more complex, the actuary should work to ensure they have an understanding of the analyses and that the work is properly documented.
- Know the Standards that apply to the work you are doing





Professionalism Skit: Reserving



Professional Guidance

- From ASOP 43 – 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

From ASOP 43 – required disclosures

- Intended Purpose or Use
- Constraints/Limitations
- Scope of the Unpaid Claim Estimate
- Dates
- Significant events, assumptions, or reliances
- Type of range (if applicable)
- Changes in assumptions, procedures, methods, or models if material
- Reliance on Single Method
- Deviation from Standard



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



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 3 of the Code of Conduct: “An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice”



Professional Guidance

- Precept 10 of the Code of Conduct: “An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.”



Skit Background

- Eileen is the Chief Actuary for a monoline Medical Malpractice insurance company. It controls a sizable share of this marketplace. In the past two years, their largest state has passed several reforms which change the amounts of compensation to be paid out malpractice claimants. There have been and continue to be attempts to have these reforms reversed but as of yet these have been unsuccessful.
- In addition to leading the Actuarial department, Eileen is a member of the company's Executive Committee, which also includes the company's CEO and CFO. This Committee has final say in determining the company's booked reserves.



Skit Background

- Dave is the internal actuary who leads the reserving unit for the company. Dave has the responsibility of signing their Statement of Actuarial Opinion. Using reasonable assumptions, he has developed a best estimate of the loss and loss adjustment expense reserves that he believes the company should book for their year-end financial statements.
- John is the actuary from the company's auditing firm. Using reasonable assumptions, he has calculated a range in which he believes the best estimate should fall. Dave's best estimate is below the low end of John's range.



Skit Background

- John and Dave have discussed the situation, and the gap in their estimates stem from differing opinions with respect to the impacts of these reforms. All three actuaries are meeting to discuss the findings.





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Key Questions

- Based on the Professional Guidance, what course of action should Eileen follow in this case?
- How do the roles/job titles of these actuaries impact their professional obligations?





Small Group Discussion



Key Questions

- Based on the Professional Guidance, what course of action should Eileen follow in this case?
- How do the roles/job titles of these actuaries impact their professional obligations?
- Others?





Large Group Discussion



Possible Courses of Action

- Alternative 1 – continue to work at it until the three of them can arrive at a range of estimates that allows for a clean Opinion from Dave and an audit sign-off from John



Possible Courses of Action

- Alternative 2 – Eileen goes with Dave’s recommendation; Dave signs a clean Opinion; Eileen and Dave continue to work to convince John to lower his range, but failing that they are fine with the short-term consequences of a deficient audit finding, confident that long-term they will be proven right



Possible Courses of Action

- Alternative 3 – Eileen goes with John's recommendation; John signs off on the audit; Eileen and John continue to work to convince Dave to issue a clean Opinion, but failing that they are fine with the short-term consequences of a redundant Opinion, confident that long-term they will be proven right



Possible Courses of Action

- Other Alternatives?



Key Takeaways

- The politics of workplace interactions can cause an actuary to blur ethical lines
- Know the Standards relevant to the work you are doing and apply them appropriately

