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# Actuarial Professionalism:

## *Do You Know the Rules of the Road?*

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Casualty Actuaries of Southeast  
Fall 2008 Meeting

Presented by:

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# Agenda

- Introduction and Background Material
- Code of Professional Conduct
- Commonly used Actuarial Standards of Practice
- Snappers
  - Small case studies
- Handout: Code of Professional Conduct

# Not Following Rules of the Road

- What would you do if your driving privileges were suspended?
  - ❑ Rely on family members and friends to drive you around
  - ❑ Take public transportation
  - ❑ Bike, walk, roller blade



# Not Following “Actuarial” Rules



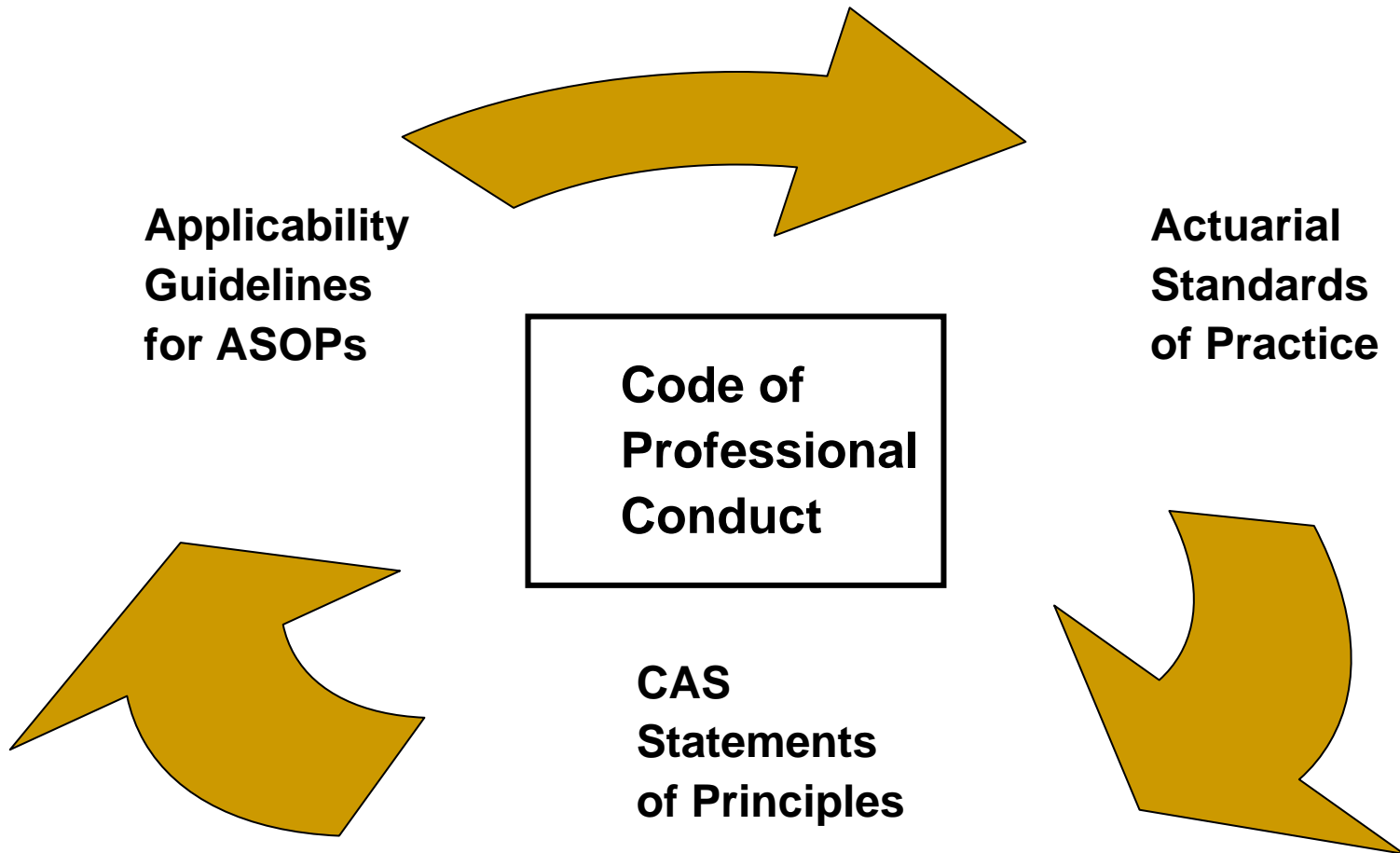
- Possible outcomes
  - ❑ You'll get pulled over by the “police” (ABCD).
  - ❑ You'll get into an accident (actuarial litigation)
- Implications of losing your actuarial “license”
  - ❑ Potential lawsuit
  - ❑ Damaged reputation
  - ❑ Lost wages/work
  - ❑ Find alternative career

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# Increased Scrutiny of Actuaries

- Morris Review (2004-05)
  - Investigation by Sir Derek Morris into the actuarial profession
  - Result of Lord Penrose's concerns with the actuarial profession in connection with the Equitable Life insolvency
- Standard and Poor's analysis (November, 2003)
  - "Insurance Actuaries: A Crisis of Credibility"
  - Blamed actuaries for reserve shortfalls in early 2000s
  - #1 Casualty Actuarial story for 2003 (CAS)
- Mealey's Litigation Report (August, 2002)
  - "To date, at least fifty [legal] actions have been filed against actuaries, with over 70% coming in the last decade."
- ABCD received 15 cases regarding conduct and practice in 2005 (11 in 2004).

# Rules of the “Actuarial” Road

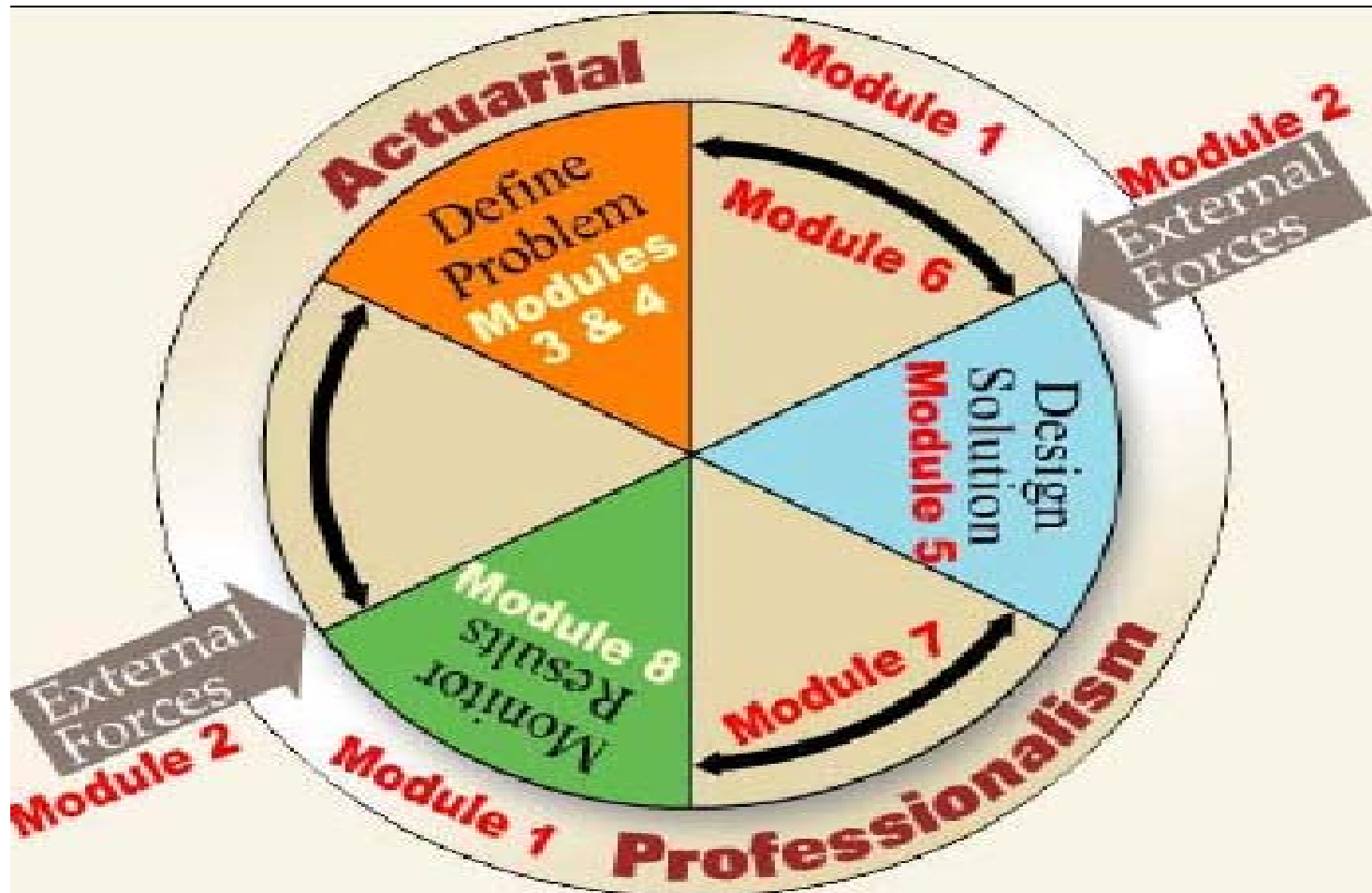


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# Professionalism is Embedded in the Purposes of the CAS

- 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.

# The SOA Actuarial Control Cycle



Source: Society of Actuaries Web Conference on Education Redesign, 12/6/2005



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# Committee on Professionalism Education

- Primary focus: Course on Professionalism
  - Syllabus and study 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
  - Other (limited attendance seminar, online)

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# Candidate Professionalism Developments

- Two recent developments
- Eligibility requirements to attend professionalism course
  - Now 6 exams, or 5 exams plus all VEE
- Candidate code of ethics
  - Effective with May 2008 exams
  - Candidates acknowledge on exam application
  - Similar to member code except knowing ASOPs and meeting qualification standards

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# Code of Professional Conduct

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# Code of Professional Conduct

- 14 precepts with annotations
- Key sections:
  - Professional integrity
  - Qualification standards
  - Standards of practice
  - Communication and disclosure
  - Conflict of interest
  - Control of work product
  - Confidentiality
  - Courtesy and Cooperation
  - Advertising
  - Titles and Designations
  - Violations of the Code of Professional Conduct
- Separate handout includes the entire Code

# Common Allegations Received by ABCD

<b>Alleged Violation</b>	<b>Number Disposed or in Process (2005)</b>	<b>Precept</b>
Failure to act with integrity	19	1
Calculation or data errors	7	1
Failure to perform services with competence	3	1
Other errors in work	3	1
Work fails to satisfy ASOP	3	3
Improper reserve estimate for insurer	3	3
Use of unreasonable assumptions	3	3
Failure to cooperate with other actuary	3	10

Source: ABCD 2005 Annual Report, 3/9/2006

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# A Word about the ABCD

- The **A**ctuarial **B**oard for **C**ounseling and **D**iscipline “considers complaints and questions concerning possible violations of the Code...”
- It also “responds to inquiries by actuaries concerning their professional conduct and, when requested to do so, provides guidance in professional matters.”
  - *ABCD Mission Statement*  
([www.abcdboard.org](http://www.abcdboard.org))

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# Actuarial Standards of Practice

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# Use of Applicability Guidelines

- Excellent reference along with the list of Actuarial Standards of Practice
- To encourage professionalism of actuaries
- Non-authoritative guidance
- Example – Preparing a reserve estimate for Schedule P:
  - Should follow ASOPs 9, 20, 21, 23, 28, 41, and 43
  - If issuing an actuarial opinion, need to also consider ASOPs 13 and 36.



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# Actuarial Standard of Practice #41: *Actuarial Communications*

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# ASOP #41: Actuarial Communications

- Covers communication by an Actuary to a Principal
  - Actuary defined by Code of Conduct
  - Principal is Actuary's client or employer
- Form can be written, electronic, or oral
  - Oral should not conflict with written or electronic
  - "Significant" actuarial findings should be written or electronic
  - Incorporate "significant" findings in report

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# ASOP #41: Actuarial Communications (Cont'd)

- Clear and appropriate for circumstances and intended audience
- Should be timely following completion of analysis
- Should identify all responsible actuaries
- Must state reliance on other sources

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# ASOP #41: Actuarial Communications (Cont'd)

- Cumulative Communications
  - Standard applies to all cumulative communications between Actuary and Principal, not individual communications
- Internal communications excluded, unless designated as actuarial communications

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# ASOP #41: Actuarial Communications (Cont'd)

- Communications not limited to Prescribed Statements of Actuarial Opinion (PSAOs)
  - Regulatory bodies may call the specific actuarial communications a PSAO.
- Connection with ASOP#9
  - ASOP#9 only covers casualty actuarial communication, ASOP#41 applies to all types of actuaries
  - ASOP#9 is pending repeal

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# Actuarial Standard of Practice #23: *Data Quality*

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# ASOP#23: Data Quality

- New standard effective 7/1/2004
- Guidance for selecting, reviewing, and using data
- Covers reliance on data supplied by others
- Disclosures regarding data quality are discussed

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# ASOP#23: Data Quality (Cont'd)

- Does NOT require the actuary to:
  - Determine whether data has been falsified
  - Compile data differently for sole purpose of searching for questionable or inconsistent data
  - Audit data
- Applies even when not issuing Prescribed Statement of Actuarial Opinion (PSAO)



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# ASOP#23: Data Quality (Cont'd)

- Review of data
  - Consider other checking, auditing already performed
  - Determine definition of each data element
  - Identify questionable data elements
  - Review data from previous project
- Should document process for reviewing data and identify material defects or adjustments/modifications made
- Follow ASOP#41 regarding communication of data review
- Should decline project if data determined to be sufficiently inadequate

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Actuarial Standard of Practice  
#43: *Property/Casualty Unpaid  
Claim Estimates*

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# ASOP#43: Property/Casualty Unpaid Claim Estimates

- Effective for any work product produced on or after **9/1/2007**
- Rationale for development
  - No current ASOP for reserving
  - CAS Statement of Principles being revised to exclude guidance language more appropriate for an ASOP
  - ASOP 36 applies only to statutory Statements of Actuarial Opinion

# ASOP#43: Property/Casualty Unpaid Claim Estimates (Cont'd)

## ■ Scope

- Any type of entity (i.e. insurers, pools, self-insured)
- Applies when communicated in **written** or **electronic** form

## ■ Out of scope

- Estimates for ratemaking
- Actions taken by Actuary's principal
- Contingent commission calculations, retro-rating, etc.

# ASOP#43: Property/Casualty Unpaid Claim Estimates (Cont'd)

- Many definitions included
  - Actuarial central estimate
  - Process, parameter, and model risk
- All types of work covered (internal/external reporting, appraisals, etc)
  - Disclose purpose of estimate and estimates may be different depending on use
- Disclose constraints/limitations/data issues that, if resolved, would lead to materially different result
- Must discuss rationale if only one method is used

# ASOP#43: Property/Casualty Unpaid Claim Estimates (Cont'd)

- Ranges
  - Range of reasonable estimates
  - When using confidence levels, discuss what risks are being modeled
- Considerations
  - Sensitivity to alternative assumptions
  - Assess reasonableness using indicators/tests
  - Changing conditions (operational/environmental) and their impact on estimates
  - Consider factors that are material and reasonably foreseeable at time of analysis
- Can provide estimates using Principal's alternate assumptions as long as documented as such

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# Other ASOPs Applicable to Casualty Actuaries

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# Other ASOPs

## ■ ASOP#12 – Risk Classification

- Provides guidance in developing sound risk classification systems.
- May rely on clinical experience, expert opinions, or inference in absence of actual data

## ■ ASOP#13 – Trending in Ratemaking

- Essential for determining future costs
- Covers projections of claim amounts, frequencies, expenses, exposures, and premiums.



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# Other ASOPs (Cont'd)

## ■ **ASOP#25 – Credibility**

- Selecting credibility procedures and choice of credibility complement (related experience)

## ■ **ASOP#38 – Using Models Outside Area of Expertise**

- Understanding and determining appropriateness of model.

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# Other ASOPs (Cont'd)

## ■ **ASOP#17 – Expert Testimony**

- ❑ Allows for differences of opinion between actuaries
- ❑ Must disclose conflicts of interest
- ❑ Must satisfy qualifications standards of PSAOs to give expert testimony

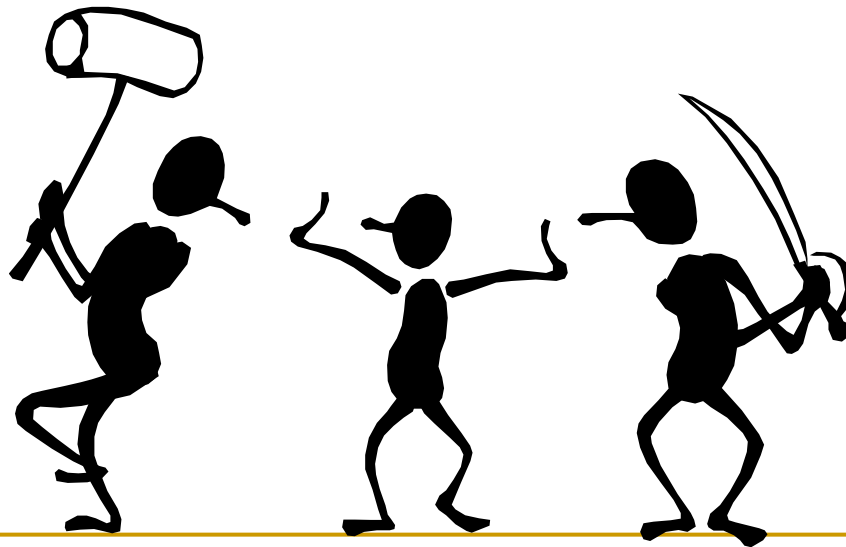
## ■ **ASOP#20 – Discounting Reserves**

- ❑ Determining timing of payments and appropriate discount rate

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# “SNAPPERS”

(Audience Participation Requested)



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# Snappers Overview

- Snappers = Real Life Predicament
- 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.

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# Snapper # 1

You are the chief actuary for your company and develop a reserve estimate for December 31, 2007 using reasonable methods and assumptions. The opining actuary produces a range using reasonable assumptions and your estimate is materially above the opining actuary's range. Traditionally your company has booked your best estimate but now insists that you lower your estimate to within the range, which is outside your reasonable range. What do you do?

## Snapper # 2

Assume that you filed a rate change of +10% and it is sitting in the Department of Insurance for quite a while (Prior Approval state/province). A new analyst decides to run a more current indication which utilizes two additional quarters of data that is not included in the 10% change waiting for approval. This new indication shows a 0.0% need. The new analyst shares this information with you and you have seen the answer. What do you do?

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# Snapper # 3

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?

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## Snapper # 4

Suppose your marketing department is really pushing a new business discount in order to get a boost in growth. You have no actuarial support for the discount because you do not collect data on it. The competition does not have this discount either. As an actuary, would you file a discount that has no known support? What would you do?



# Snapper # 5

You are the reserving actuary for a personal auto liability carrier in California. You traditionally have performed your reserve analysis separately for urban and rural drivers. As a result of new legislation, your company has filed new rates based on driving record instead of zip code. You expect premiums to fall in the urban areas and as a result you have raised your expected loss ratios (ELRs) in urban areas. An urban-area branch manager whose bonus is tied to his branch's profitability disagrees and has convinced your boss that you are overreacting to the change. Your boss requires you to lower your ELR for his branch and not increase the same for other branches. Assume your ELR is used to establish reserves for the company and no other adjustments can be made.

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# Now... It's Your Turn

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Any situations involving “a friend of yours?”

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Thanks for Your Participation!

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