

Property/Casualty Actuaries and the New US Qualification Standard

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The Code of Professional Conduct

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.

The Code of Professional Conduct

ANNOTATION 2-1. It is the professional responsibility of an Actuary to observe applicable qualification standards that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services and to keep current regarding changes in these standards.

- In the US, the AAA has been delegated that responsibility by the other US-based organizations (CAS, SoA, ASPPA, CCA)
- New standard effective 1/1/08

History

- In 1965, members of the U.S. actuarial profession formed the American Academy of Actuaries to represent U.S. actuaries across all practice areas to reflect the voice of all U.S. actuaries on public policy issues, and to foster and maintain professionalism.
- In fulfilling its professionalism mission, one of the Academy's tasks is to promulgate and monitor the *Qualification Standards (QS)* for basic education and experience and continuing education.
- The Academy's Committee on Qualifications (COQ) is charged with promulgating, and revising, as necessary, the Qualification Standards.

Agenda

- This presentation is oriented toward P/C Actuaries
 - Some details, e.g. EA's, not addressed
- Who's Affected?
- General Qualification Standard
 - Basic Education & Experience
 - Continuing Education
- Transition
 - Basic Education & Experience
 - Continuing Education
- Changes to Specific Qualification Standard for NAIC Opinions
- Acknowledgement & Record Keeping
- Qualification vs Membership
- FAQ's
- Your Questions

Who's Affected?

Who's Affected?

- Actuaries who issue Statements of Actuarial Opinion when rendering Actuarial Services in the United States are required by the *Code of Professional Conduct* to satisfy the Qualification Standards.
- The Academy makes a broad interpretation of rendering Actuarial Services in the United States
 - Depends on the status of the entity for which the work is being done, rather than on where the actuary happens to be located.

Who's Affected?

- If you do not practice in the United States and do not issue SAOs that will be relied upon in the United States, then you are not required to comply with the revised Qualification Standards.
- Under Precept 2 of the Code of Professional Conduct you will need to be mindful of whether you must meet another jurisdiction's qualification standards.

Statement of Actuarial Opinion

For purposes of these Qualification Standards, a Statement of Actuarial Opinion (SAO) is an opinion expressed by an actuary in the course of performing Actuarial Services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed.

Statement of Actuarial Opinion

Actuarial Services are defined in the *Code of Professional Conduct* as “Professional services provided to a Principal [client or employer] 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.”

Statement of Actuarial Opinion

Many actuaries hold positions that are non-actuarial in nature or have non-actuarial aspects (e.g., general management positions). Actuaries in such positions may have general occasion to issue oral or written statements by virtue of the positions they hold and not because they are actuaries. The Qualification Standards are not intended to apply to such statements, even though they may happen to have actuarial aspects. If it is common for persons holding comparable positions to issue such statements, whether or not they happen to be actuaries, this is evidence that the Qualification Standards are not intended to apply.

Statement of Actuarial Opinion

- **Section I(b) of Appendix 1 of the revised Qualification Standards states the following:**
 - A draft of an actuarial opinion that has not been provided to an actuary's Principal who requested the opinion is not an SAO.
 - A draft of an actuarial opinion that has been provided to an actuary's Principal who requested the opinion is an SAO unless the document is clearly marked that it should not be relied upon.
 - If there is a reasonable likelihood that the Principal will rely on the draft regardless of intent, that is an indication that the draft is an SAO.

Statement of Actuarial Opinion

- If the Principal is not subsequently sent a final report within a reasonable time frame, that is an indication that the draft report is an SAO. The actuary should communicate to the Principal that the final report replaces the draft report.
- There may be instances where the actuary sends the Principal a draft report that clearly indicates it should not be relied upon (a document that is not an SAO according to the above definition) and the actuary and Principal subsequently agree that a final report will not be issued. In this case, the draft report is not an SAO.

Current Standard

- Current standard applies only to *prescribed* statements of actuarial opinion
 - A statement of actuarial opinion issued for purpose of compliance with law or regulation;
 - A statement of actuarial opinion issued for purpose of compliance with ASOPs as promulgated by the ASB; or
 - An actuarial communication issued for purpose of compliance with standards promulgated by the FASB, GASB, CASB, AICPA or FASAB.
- Both standards (current & new) maintain additional requirements for NAIC reserve opinions

Expanded Scope of New Standard

- Because the new standard applies to *all* statements of actuarial opinion, its scope covers virtually all actuaries practicing in the United States
- This probably means you

General Qualification Standard: Basic Education & Experience

Three Minimum Requirements

- You have to be a credentialed actuary:
 - MAAA, ACAS, FCAS, ASA, FSA, FSPA, MSPA, FCA
 - Or a full member of an IAA organization
 - Eg a fellow of the DAV, the German actuarial society
 - Actuaries who are not eligible for AAA membership practice in the US, so the standard needs to cover them
 - Equivalent of an associate from such a society would not meet the standard

Three Minimum Requirements

- You need 3 years of experience
 - defined as work that requires knowledge and skill in solving actuarial problems
- You must be knowledgeable of relevant US laws and regulations
 - through examination or documented professional development

Topic of Opinion Covered by a Specialization Track

- Could the actuary have completed a fellowship in this area in the US?
- Then the actuary must do one of the following:
 - Be a fellow in this area
 - Be a fellow in another area and have 1 year's experience under qualified review
 - Have 3 years' experience under qualified review

Continuing Education

- 30 hours per year (24 in 2008 for 2009)
 - 6 hours must be “organized”
 - 3 hours “professionalism”
 - 1 “hour” = 50 minutes
 - This session is 1.2 units of professionalism provided we go to the end of the hour
 - Excess carry forward is permitted, but only into the following year

Continuing Education

- Relevant to the subject of the SAO
 - Under a very broad definition of relevant
 - Up to the actuary to determine
 - Not necessarily purely actuarial in nature
 - Professionalism encouraged
 - General business courses probably don't have enough technical content – limit to 3 hours

Continuing Education: Organized Activities

- “Organized activities” involve interaction with actuaries or other professionals working for different organizations.
- Examples of organized activities include, but are not limited to, conferences, seminars, webcasts, in-person or online courses, or committee work that is directly relevant to the area of practice of the subject of the Statement of Actuarial Opinion.

Continuing Education: Organized Activities

- In-house meetings can constitute “organized activities” by using outside speakers who are actively involved in the meeting, otherwise in-house meetings without an outside speaker could qualify as an “other activity” for CE credit purposes.
- “Outside speaker” does not include someone employed by a company working at a different location.

Continuing Education: Catching Up

- CE requirement generally met in the preceding year
 - E.g. obtain 24 hours of CE during 2008 for opinions in 2009
- Can be met in the year of the opinion provided that the catch up is completed prior to the opinion
 - Catch up hours do not count toward the current year's requirement
 - E.g. actuary only earned 21 hours in 2008
 - Needs to get 3 more in 2009 before issuing opinions
 - Needs an *additional* 30 hours in 2009 for 2010 opinions

Continuing Education: Carry Forward

- CE hours in excess of the annual requirement may be carried forward one year.
- An actuary may carry forward organized activity credits that exceed six hours in a calendar year to the next calendar year provided the actuary has met and exceeded the annual requirement for that calendar year.
- Example – an actuary earns 36 hours of CE credit in 2009, of which 12 hours are from organized activities. 6 hours of organized activities can be carried over to 2010.

Continuing Education: Carry Forward

- An actuary earns 30 hours of CE credit in 2009, of which 12 hours are from organized activities, and 30 hours of CE credit in 2010, of which none are from organized activities. Has the CE requirement been met?

Transition: Basic Education and Experience

- An actuary who met the basic education and experience requirements to issue Prescribed Statements of Actuarial Opinion in a particular area of practice prior to January 1, 2008 continues to meet the BEE requirements under the new Qualification Standards after December 31, 2007 for that area of practice.
 - This applies whether or not the actuary issued any PSAO's in 2007.
 - Actuaries who did not meet the BEE requirements for PSAO's in 2007 must meet the BEE requirements in the 2008 Qualification Standards.
 - Actuaries who will begin issuing SAO's in a new area of practice after December 31, 2007, must meet the BEE requirements in the 2008 Qualification Standards in the new area of practice.

Transition: Continuing Education for 2008 Opinions

- Actuaries who issue SAO's in 2008 should meet the pre-2008 standards on continuing education requirements
- For SAO's that would be PSAO's under the 2007 Qualification Standards, the 2007 Qualification Standards specify the minimum continuing education requirement (generally, 24 CE in a rolling two year period).
- For SAO's that would not have been PSAO's under the 2007 Qualification Standards, Precept 2 of the Code of Professional Conduct requires that the actuary be qualified before issuing SAOs.
 - The actuary is expected to continue to exercise professional judgment to determine the appropriate level of continuing education to issue SAOs in 2007 and 2008.

Transition: Continuing Education for 2008 Opinions

- The new continuing education requirements must be met for SAO's issued in 2009.
- Excess continuing ed hours earned in 2007 may be carried forward to 2008.

Specific Qualification Standard for NAIC p/c Opinions

Specific Education Requirements

- Must have passed relevant exams offered by the AAA or CAS on:
 - Policy forms & coverages, underwriting & marketing
 - Principles of ratemaking
 - Statutory insurance accounting & expense analysis
 - Premium, loss & expense reserves
 - Reinsurance (only change from old standard)
- Alternative – signoff on education by an actuary who is qualified to sign NAIC opinions

Specific Experience Requirement Unchanged

- An actuary must obtain at least three years of responsible experience relevant to the subject of the Statement of Actuarial Opinion under review by an actuary who was qualified to issue the Statement of Actuarial Opinion at the time the review took place under standards in effect at that time.

Specific Continuing Education

■ Current Standard

- Average 12 hours per year in a two-year cycle
- Minimum 6 hours “organized activities”

■ New Standard

- 15 hours per year (included in the 30 overall hours)
- A minimum of 6 of the 15 hours must be obtained through experiences that involve interaction with outside actuaries or professionals, such as seminars, in-person or online courses, or committee work that is directly relevant
- Excess carry forward permitted

Acknowledgement & Record Keeping

Acknowledge Qualification

- Standard requires affirmative acknowledgement that the actuary is qualified
 - Suggested language is not mandatory
 - Pre-formatted forms do not require acknowledgement
- Per ASOP #41, must be somewhere in the totality of the communication, not every time the actuary speaks
- In-house actuaries may wish to consider making a formal acknowledgment to their Principals on an annual basis

Record Keeping

- Up to the actuary
 - Should be maintained for 6 years
 - Notes on self-study would be appropriate documentation

Qualification vs Membership

Qualification vs Membership

- The qualification standards set minimum standards for an actuary who performs certain activities
 - Issue statements of actuarial opinion
 - Sign NAIC reserve opinions
- Membership is not affected
 - Retired actuaries
 - Other actuaries who do not issue opinions
 - CAS members practicing outside the US
- Subject to discipline process

Qualification vs Membership

- Membership in the CAS is akin to an academic designation
 - Recognizes a demonstrated level of knowledge
 - No experience requirement
 - No practice requirement
- Hence, the CAS does not set qualification standards
 - Standards vary depending on the jurisdiction
 - No continuing education requirement for membership
 - Code of conduct also refers to conduct, not to membership

Qualification vs Membership

- What about actuaries not covered by a qualification standard?
 - SoA intends to adopt a CE standard for all members not covered by another equal or greater standard
 - UK profession has a similar requirement covering all actuaries except retirees
- Should the CAS adopt such a requirement?

Frequently Asked Questions

FAQ's – SAO's

- I work for a very large company, so my work products are only internal – do I still have to meet the qualification standard?
- Is your work actuarial in nature?
- Does someone rely on your work?
- Then you must meet the standard, regardless of your employer

FAQ's – SAO's

- I'm partially retired (only working part time, raising children...) and only issue a few SAO's each year – do I still have to meet the qualification standards?
- Does your principal rely on you any less, or deserve less than your full effort?
- Yes, you must meet the standard

FAQ's – Basic Education & Experience

- So, really, after you sift through all this wording, who's qualified to issue property/casualty SAO's?
- Any FCAS with US-7 & 3 years of experience
- Any ACAS with US-7 & 3 years of experience under review by a qualified actuary
- Without US-7, CAS members need to fulfill relevant law & regulation requirement through documented professional development

FAQ's – Basic Education & Experience

- Who else?
- Any FIA, FFA, FIAA, etc., who
 - Specialized in p/c (general insurance)
 - Has 3 years of experience
 - Has documented knowledge of relevant laws & regs
- Any FSA, FIA, FFA, FIAA, etc., who
 - Specialized in something other than p/c
 - Has 3 years of experience
 - Has 1 year of reviewed experience in p/c
 - Has documented knowledge of relevant laws & regs

FAQ's – Basic Education & Experience

- Who else?
- Any ASA or any fully qualified member of an IAA organization, who
 - Didn't do a fellowship (specialty) track
 - Has 3 years of reviewed experience in p/c
 - Has documented knowledge of relevant laws & regs

FAQ's – Experience

- Does my experience have to be after I am credentialed?
- No, any responsible actuarial work is relevant

FAQ's – Experience

- I'm an ACAS and the only actuary at my employer – how can I become qualified?
- Most actuaries in this situation will have at least some supervised work experience at prior employers
- Reviews by outside consultants
- Fellowship exams

FAQ's – multiple practice areas

- My employer wants me to give opinions on many areas of actuarial practice, but I'm only qualified in . . .
- You must meet the qualification standard
- You could give your educated, but not qualified, opinion provided that you stated as much

FAQ's – multiple practice areas

- What about opinions that are in more than one area?
- Two (or more) actuaries can collectively meet the standard for an opinion in multiple practice areas and issue a joint opinion

FAQ's – Continuing Ed

- My employer won't pay for 30 hours of meetings every year
- There is no requirement that continuing ed be meeting attendance (although that is encouraged)
- Documented self-study is accepted and would normally make up a portion of continuing ed
- 6 hours must involve interaction with someone other than the gal in the next cubicle!
 - Regional meetings, online courses, webinars, committee involvement – not just major meetings & expensive trips

FAQ's – Continuing Ed

- My employer won't pay for 30 hours of meetings every year
- 6 hours must involve interaction with someone other than the gal in the next cubicle!
 - Regional meetings, online courses, webinars, committee involvement – not just major meetings & expensive trips
 - Can carry forward “outside” hours over 6 provided total is over 30 – so one meeting every other year will probably suffice