
Actuarial Professionalism:

Do You Know the Rules of the Road?

Southern California Casualty Actuarial Club
Spring 2007 Meeting

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Vice-Chair, Committee on Professionalism Education

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

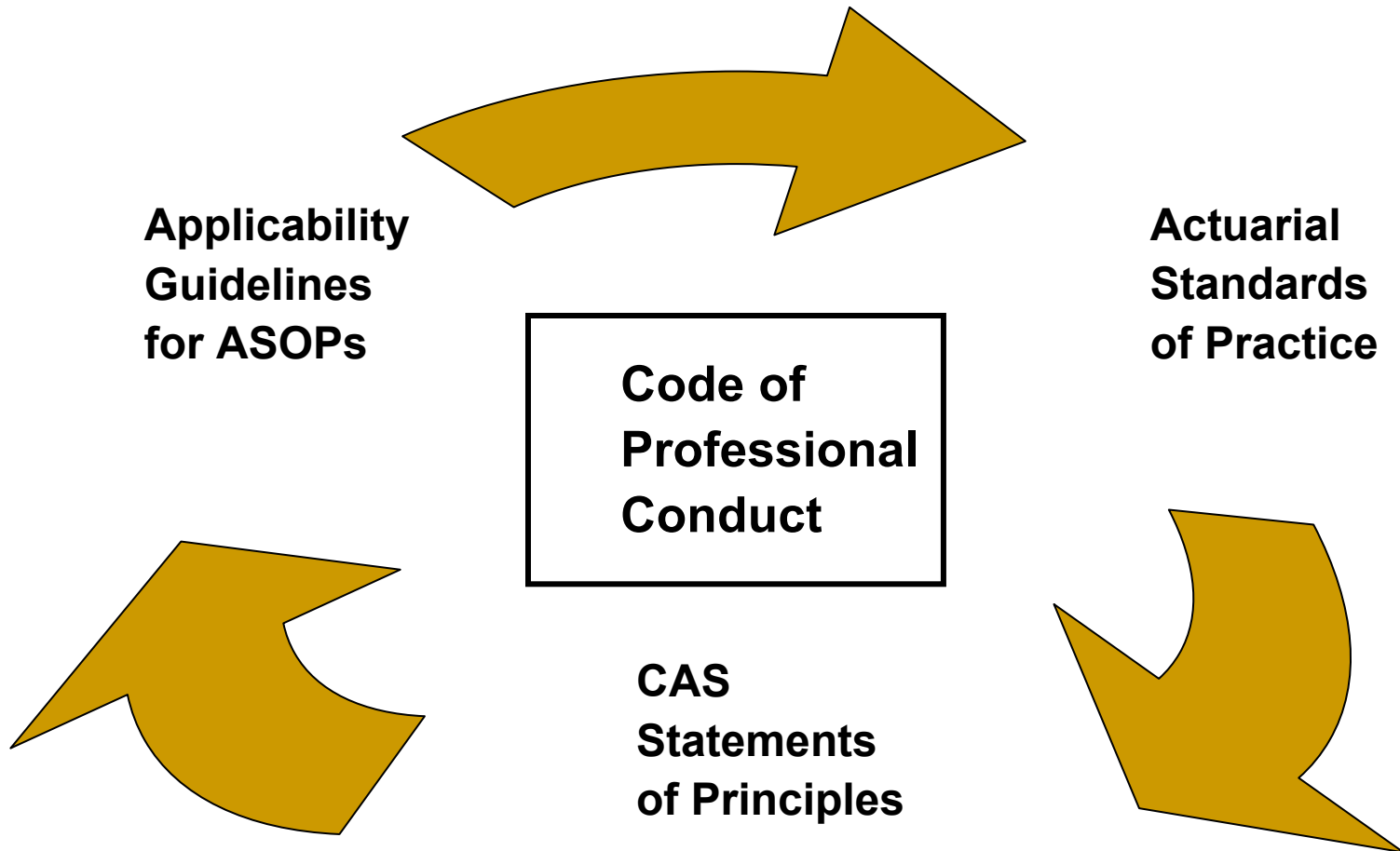


- Possible outcomes
 - ❑ You’ll get pulled over by the “police” (ABCD).
 - ❑ You’ll get into an accident (actuarial litigation)
- Implications of losing your actuarial “license”
 - ❑ Potential lawsuit
 - ❑ Damaged reputation
 - ❑ Lost wages/work
 - ❑ Find alternative career

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
- 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.

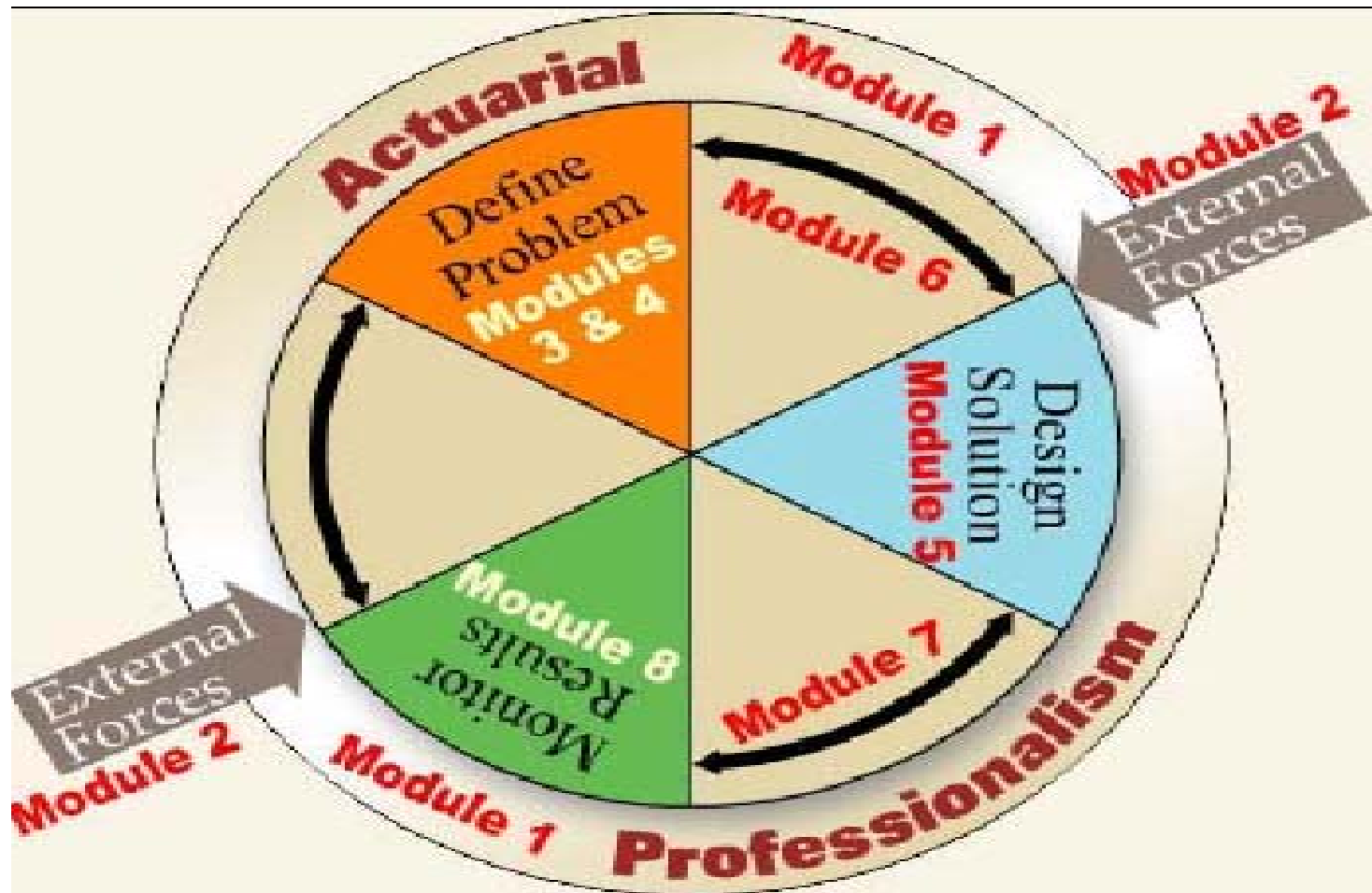
Rules of the “Actuarial” Road



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



Candidate Professionalism Developments

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

Code of Professional Conduct

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

Alleged Violation	Number Disposed or in Process (2005)	Precept
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*

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)

Actuarial Standards of Practice

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, and 41
 - If issuing an actuarial opinion, need to also consider ASOPs 13 and 36.

Actuarial Standard of Practice #41: *Actuarial Communications*

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

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

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

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

Actuarial Standard of Practice #23: *Data Quality*

ASOP#23: Data Quality

- New standard effective 7/1/2006
- Guidance for selecting, reviewing, and using data
- Covers reliance on data supplied by others
- Disclosures regarding data quality are discussed

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)

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

Actuarial Standard of Practice
#36: *Statements of Actuarial
Opinion*

ASOP#36: Statements of Actuarial Opinion (SAOs)

- Applies only to WRITTEN statements required by law and/or identified as an SAO by the actuary.
- Types of SAOs
 - Reasonable Provision
 - Deficient or Inadequate Provision
 - Redundant or Excessive Provision
 - Qualified Opinion
 - No Opinion

ASOP#36: Statements of Actuarial Opinion (SAOs) (Cont'd)

- Reasonable Opinion
 - Stated Reserve within Actuary's Range
- Qualified Opinion
 - Cannot estimate reserve for certain items
- No Opinion
 - Actuary cannot reach a conclusion

ASOP#36: Statements of Actuarial Opinion (SAOs) (Cont'd)

- Material Adverse Deviation
 - Actuary believes risks and uncertainties exist that could result in material deviation
 - Must disclose amount of adverse deviation judged to be material
 - Description of conditions that could result in adverse deviation
- Materiality typically defined as a % of surplus, reserves, or net income

ASOP#36: Statements of Actuarial Opinion (SAOs) (Cont'd)

- Other provisions of standard
 - Considerations in reserve analysis
 - Understanding significance and collectibility of ceded reinsurance
 - Second opinions (reviewing SAO)
- Key items requiring disclosure
 - Reliance on work of others
 - Changes in Actuary's assumptions, procedures, or methods
 - Amount needed to increase or decrease carried reserve if outside actuary's range

Other ASOPs Applicable to Casualty Actuaries

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.

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.

Other ASOPs (Cont'd)

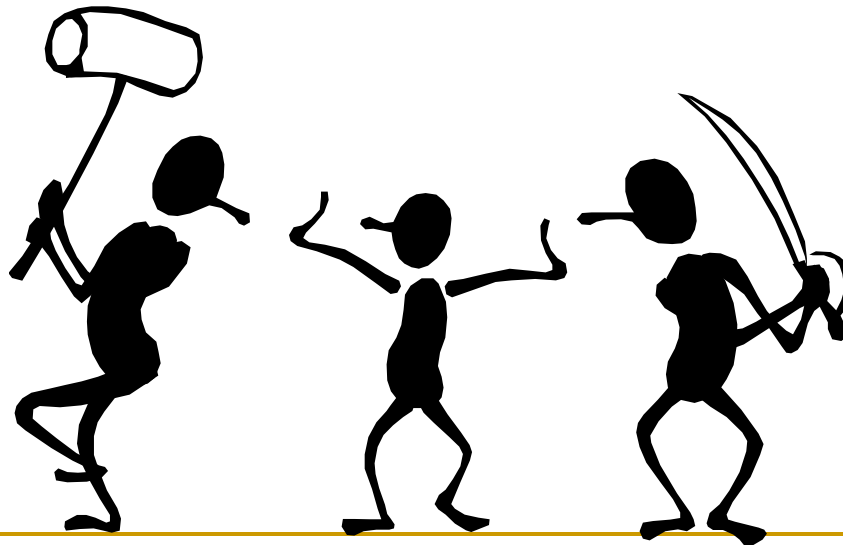
- ASOP#17 – Expert Testimony
 - Allows for differences of opinion between actuaries
 - Must disclose conflicts of interest
 - Must satisfy qualifications standards of PSAOs to give expert testimony
- ASOP#20 – Discounting Reserves
 - Determining timing of payments and appropriate discount rate

ASOP Exposure Draft on P/C Unpaid Claim Estimates

- Rationale for development
 - No current ASOP for reserving
 - CAS Statement of Principles being revised to exclude guidance language more appropriate for an ASOP
- 2nd exposure draft released in February
- Comment period closed May 1
- Stay tuned!

“SNAPPERS”

(Audience Participation Requested)



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.

Snapper # 1

You are the chief actuary for your company and develop a reserve estimate for December 31, 2006 using reasonable methods and assumptions. The opining actuary produces a range using reasonable assumptions and your estimate is well 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?

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?

Snapper # 4

You are the actuary for a reinsurance company trying to set an excess reinsurance rate for a small domestic company that writes a specialty class commercial auto but does not have credible data. You also reinsure a larger company, which writes basically the same business in the same state, and who has supplied you with ample data that could be used to set the rates for the smaller company. Do you use the data, as a collateral source, to develop rates for the smaller company?

Snapper # 5

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 # 6

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 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 expected loss ratio for his branch. What do you do?

Now... It's Your Turn

Any situations involving “a friend of yours?”

Limited Attendance Seminar on Professionalism

- The CAS is sponsoring a limited attendance seminar on professionalism.
- First session to be held Sunday at the CAS Spring meeting in Orlando.
- Scaled down version (4 hours) of current Course on Professionalism for candidates.
- **Free** to attend if you are attending the annual meeting.
- Intended for “experienced” members who want a refresher on professionalism topics.
- We welcome your participation and interest!

Thanks for Your Participation!
