



Actuaries in Non-Actuarial Roles

Committee on Professionalism
Education

Agenda



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

Professional Guidance



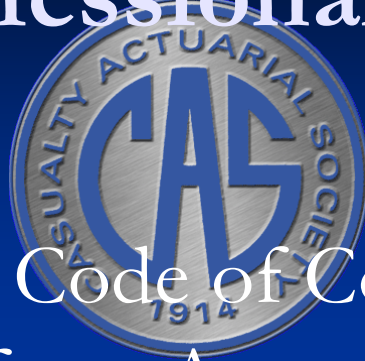
- Precept 1 of the Code of Conduct: “An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession.”

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.”

Professional Guidance



- CAS Statement of Principles Regarding Property and Casualty Insurance Ratemaking
 - Principle 1: A rate is an estimate of the expected value of future costs.
 - Principle 2: A rate provides for all costs associated with the transfer of risk.

Professional Guidance



- CAS Statement of Principles Regarding Property and Casualty Insurance Ratemaking
 - Principle 4: A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.

Professional Guidance



- CAS Statement of Principles Regarding Property and Casualty Insurance Ratemaking, Section III: Ratemaking Considerations
 - Credibility
 - Trends

Professional Guidance



- ASOP 13: Trending Procedures in Property/Casualty Insurance
 - Section 3.2 - Historical Insurance and Non-Insurance Data. Must consider:
 - the credibility assigned to the data by the actuary;
 - the time period for which the data is available;
 - the relationship to the items being trended; and
 - the effect of known biases or distortions on the data relied upon (for example, changes in claim practices).

Professional Guidance



- ASOP 13: Trending Procedures in Property/Casualty Insurance
 - Section 3.3 - Economic and Social Influences. The actuary should consider economic and social influences that can have a significant impact on trends in selecting the appropriate data to review, the trending calculation, and the trending procedure. In addition, the actuary should consider the timing of the various influences.

Professional Guidance



- ASOP 13: Trending Procedures in Property/Casualty Insurance
 - Section 3.4 - Selection of Trending Procedures. The actuary may consider relevant information such as the following:
 - procedures established by precedent or common usage in the actuarial profession;
 - procedures used in previous analyses;
 - procedures that predict insurance trends based on insurance, econometric, and other non-insurance data; and
 - the context in which the trend estimate is used in the overall analysis.

Professional Guidance



- ASOP 25: Credibility Procedures
 - Section 3.2 - Selection or Development of Credibility Procedure. Consider if the procedure is expected :
 - to produce reasonable results
 - to be appropriate for the intended use and purpose; and
 - to be practical to implement when taking into consideration both the cost and benefit of employing a procedure.
 - Also consider the predictive value of more recent experience as compared to experience from earlier time periods.

Professional Guidance



- ASOP 25: Credibility Procedures
 - Section 3.3 - Selection of Relevant Experience
 - exercise professional judgment and use care in selecting and using relevant experience
 - should have characteristics similar to the subject experience (demographics, coverages, frequency, severity, etc.)
 - if does not meet and cannot be adjusted to meet such criteria, it should not be used

Professional Guidance



- ASOP 25: Credibility Procedures
 - Section 3.4 – Professional Judgment
 - use professional judgment when selecting, developing, or using a credibility procedure
 - use of credibility procedures is not always a precise mathematical process - blending the subject experience with the relevant experience may be based on the actuary assigning full, partial, or zero credibility to the subject experience without using a rigorous mathematical model

Professional Guidance



■ ASOP 25: Credibility Procedures

■ Section 3.5 – Homogeneity of Data

- consider the homogeneity of both the subject experience and the relevant experience
- within each set of experience, there may be segments that are not representative of the experience set as a whole
- predictive value can sometimes be enhanced by separate treatment of these segments
- also consider the balance between the homogeneity of the data and the size of the data set

Professional Guidance



■ CPCU Code of Professional Conduct

■ Canon 4

- Insurance professionals should be diligent in the performance of their occupational duties and should continually strive to improve the functioning of the insurance mechanism.
- R4.2: A CPCU shall support efforts to effect improvements in all aspects of insurance operations that will both benefit the public and improve the overall efficiency with which the insurance mechanism functions

Professional Guidance



■ CPCU Code of Professional Conduct

■ Canon 5

- Insurance professionals should aspire to raise the professional and ethical standards of the insurance and risk management profession.
- R5.1: A CPCU shall encourage and assist others to enhance their professional competence

Professional Guidance



■ CPCU Code of Professional Conduct

■ Canon 6

- Insurance professionals should strive to establish and maintain dignified and honorable relationships with those whom they serve, with fellow insurance professionals, and with members of other professions.
- R6.3: In any given circumstance, a CPCU must accurately represent his or her ability to provide the amount or quality of professional services required. When a client requests or when issues lie outside the expertise of a CPCU, he or she must seek counsel of other professionals to ensure the necessary quality of professional service.



Skit Background

- Brie has been the VP of underwriting for the last three years. Wayne, the actuary supporting Brie's product, along with the marketing department, has developed a new product with forms, rates and a 5-year pro-forma of the expected results of this new product on the market's financial statements. Brie has reviewed the work and believes there to be flaws in the pricing assumptions. What should she do?



Legal Disclosure

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



Lights, Camera, Action!



General Questions

- Given her actuarial background, what level of influence should Brie have on the pricing indication?
- Does Wayne have to incorporate Brie's feedback in his pricing pick, and if so, to what extent?
- Who ultimately owns the final recommendation?



Small Group Discussion



Discussion of General Questions

- Given her actuarial background, what level of influence should Brie have on the pricing indication?
- Does Wayne have to incorporate Brie's feedback in his pricing pick, and if so, to what extent?
- Who ultimately owns the final recommendation?



Potential Courses of Action

- Brie should let the matter drop. It's the Wayne's call. It's not the call Brie would make, but it would be best just to align with those chosen assumptions and make the most of it going forward
- Brie should go over the Wayne's head to The Chief. Leverage that existing relationship to get The Chief on her side. Then have the Chief override the Wayne to go with her chosen assumptions.



Potential Courses of Action

- Brie should do her own independent analysis. Scenario test alternative assumptions. Have it peer reviewed by another actuary to ensure your choices are reasonable. Detail the impacts and go back to the Wayne. Try to collaborate and arrive at consensus picks that they can both live with.
- Other???



Key Takeaways

- While the advantages to having actuaries in non-actuarial roles are numerous, those in those roles must be mindful of the potential drawbacks
- Roles, responsibilities, and authority levels must be clear and ultimately must be respected
- Know the Standards that apply to the work you are doing