

Antitrust Notice

- **The Casualty Actuarial Society is committed to adhering strictly to the letter and spirit of the antitrust laws. Seminars conducted under the auspices of the CAS are designed solely to provide a forum for the expression of various points of view on topics described in the programs or agendas for such meetings.**
- **Under no circumstances shall CAS seminars be used as a means for competing companies or firms to reach any understanding – expressed or implied – that restricts competition or in any way impairs the ability of members to exercise independent business judgment regarding matters affecting competition.**
- **It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.**



Legal Disclosure

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





Professionalism Skit: The Elusive Model



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 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 4 - Actuarial Communication should be clear and appropriate to the circumstances and its intended audience & satisfies applicable standards of practice.
 - ANNOTATION 4-1. The Actuarial Communication should clearly identify the Actuary as being responsible for it.



Professional Guidance

- PRECEPT 8. An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties.
 - ANNOTATION 8-1. An Actuarial Communication prepared by an Actuary may be used by another party in a way that may influence the actions of a third party.



Professional Guidance

- PRECEPT 10. An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.



Violations of the Code of Professional Conduct

- PRECEPT 13:

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 – ASOP 38 Using Models Outside Area of Expertise

– 3.1 Introduction

- In performing actuarial work, an actuary may find it appropriate to use models that incorporate specialized knowledge outside of the actuary's own area of expertise. When using such a model, the actuary should do all of the following:
 - a. determine appropriate reliance on experts;
 - b. have a basic understanding of the model;
 - c. evaluate whether the model is appropriate for the intended application;
 - d. determine that appropriate validation has occurred; and
 - e. determine the appropriate use of the model.



Professional Guidance – ASOP 38 Using Models Outside Area of Expertise

– 3.2 Appropriate Reliance on Experts

- An actuary may rely on experts concerning those aspects of a model that are outside of the actuary's own area of expertise. The experts relied upon may either be the experts who provided the model or other experts. In determining the appropriate level of reliance, the actuary should consider the following:
 - a. Are they experts in the applicable field;
 - b. the extent to which the model has been reviewed or opined on by experts in the applicable field; and
 - c. whether there are standards that apply to the model or to the testing or validation of the model and whether the model has been certified as having met such standards.



Professional Guidance – ASOP 38 Using Models Outside Area of Expertise

– 3.5 Appropriate Validation

- The actuary should evaluate the user input and the reasonableness of the model output, including examining the following:
 - a. the results derived from alternate models or methods, where available and appropriate;
 - b. how historical observations, if applicable, compare to results produced by the model;
 - **c. the consistency and reasonableness of relationships among various output results;** and
 - d. the sensitivity of the model output to variations in the user input and model assumptions.



Professional Guidance – ASOP 38 Using Models Outside Area of Expertise

– 4.3 Disclosures

- In communicating the results of actuarial work using a model that incorporates specialized knowledge outside of the actuary's own area of expertise, the actuary should disclose the model(s) used and any adjustments made to the model results. In addition, the actuary should include the following, as applicable, in an actuarial communication:
 - if any material assumption or method was prescribed by law
 - if the actuary states reliance on other sources and thereby disclaims responsibility; and
 - if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of this ASOP.



Professional Guidance – ASOP 41

Actuarial Communications

- **2.1 Actuarial Communication** - A written, electronic, or oral communication issued by an actuary with respect to actuarial services.
 - **3.4.3 Reliance on Other Sources for Data and Other Information**
 - An actuary who makes an actuarial communication assumes responsibility for it, except to the extent the actuary disclaims responsibility by stating reliance on other sources.



Professional Guidance – ASOP 41

Actuarial Communications

– 3.4.4 Responsibility for Assumptions and Methods

- An actuarial communication should identify the party responsible for each material assumption and method. Where the communication is silent, the actuary who issued the communication will be assumed to have taken responsibility.
 - B.3. If the actuary has been unable to judge the reasonableness of the assumption or method without performing a substantial amount of additional work beyond the scope of the assignment, or if the actuary was not qualified to judge the reasonableness of the assumption, the actuary should disclose that fact as specified in section 4.3.



Professional Guidance

- Principle 3 of the Statement of Principles Regarding P&C Insurance Ratemaking:
 - Ratemaking should provide for the costs of an individual risk transfer.
 - When the experience of an individual risk does not provide a credible basis for estimating these costs, it is appropriate to consider the aggregate experience of similar risks.



Professional Guidance

- Statement of Principles Regarding P&C Insurance Ratemaking Considerations:
 - Actuarial Judgment
 - Informed actuarial judgments can be used effectively in ratemaking. Such judgments may be applied throughout the ratemaking process and should be documented and available for disclosure.



Professional Guidance

- CPCU Code of Professional Conduct

- Canon 3

- Insurance professionals should obey all laws and regulations, and should avoid any conduct or activity that would cause unjust harm to others.
- R3.1: A CPCU shall exercise the utmost good faith in the conduct of business or professional activities. [snip] A CPCU shall not willfully misrepresent or conceal any fact or information, or fail to furnish any fact or information that is material to the business or professional activity.
- R3.2: A CPCU shall not allow the pursuit of financial gain or other personal benefit to interfere with the exercise of sound professional judgment and skills.



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.



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.
- R5.3: A CPCU shall not withhold information or assistance officially requested by appropriate regulatory authorities who are investigating or prosecuting any alleged violation of laws or regulations.



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

- Terry, FCAS, Pricing Director, OutSmart Insurance Company (and Chris' boss)
- Jean, PhD Statistics, Predictive Modeler, OutSmart Insurance Company (not an actuary)
- Chris, ACAS, West Dakota Pricing Manager, OutSmart Insurance Company
- Paul, State Filer, OutSmart Insurance Company
- Scene 1: Chris & Terry in Terry's Office
- Scene 2: Paul & Terry in Terry's Office





Lights, Camera, Action!



General Questions

- What options (if any) does Terry have?
- If Outsmart Insurance Company withdraws the filing, what could be the ramifications?
- What internal processes could be put in place at Outsmart to prevent this situation?
- What is Chris' degree of culpability for the situation? Has she violated the Code of Conduct?
- What should Chris do now?





Small Group Discussion



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

