



AMERICAN ACADEMY *of* ACTUARIES

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Overview of US Actuarial Professionalism

Michael Ward, MAAA, FSA

Dan Adams, MAAA, FSA

National Life Group

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Disclaimer

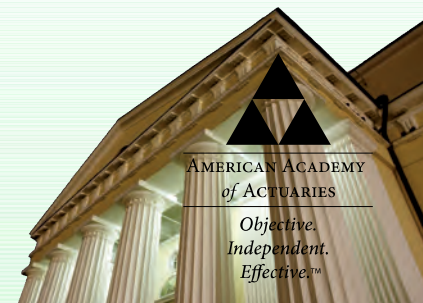
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The presenters' statements and opinions are their own and do not necessarily represent the official statements or opinions of the American Academy of Actuaries or any other actuarial organization.



The American Academy of Actuaries

- The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the United States actuarial profession.
- To accomplish this (among other activities), the Academy provides for the establishment, maintenance, and enforcement of high professional standards of actuarial conduct, qualification, and practice.



Overview of the Pillars of US Actuarial Professionalism

- Code of Professional Conduct
- US Qualification Standards
- Actuarial Standards of Practice
- Counseling and Discipline

** These are the building blocks for self-regulation **



Code of Professional Conduct



Code of Professional Conduct

- The current identical Code was individually adopted by the five U.S.-based actuarial organizations (Academy, ASPPA, CAS, CCA, & SOA) and took effect January 1, 2001.
- The Code sets forth professional/ethical standards for actuarial members of the five U.S.-based actuarial organizations.
- Actuaries who commit material violations of the Code are subject to counseling or discipline.



Code of Professional Conduct

- The Code contains 14 Precepts, along with annotations providing further guidance on adhering to the Precepts.
- The Precepts are standards that must be followed by credentialed actuaries whose member organizations require such members to follow the Code.



Professional Integrity

Precept 1

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.



Qualification & Standards of Practice

- Precept 2 - An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so on basis of basic and continuing education, and experience, and only when the Actuary satisfies applicable qualification standards.
- Precept 3 – An Actuary shall ensure that Actuarial Services performed by and under the direction of the Actuary satisfy applicable standards of practice.



Other Precepts

- Communications and Disclosure: Precepts 4, 5, and 6
- Conflict of Interest: Precept 7
- Control of Work Product: Precept 8
- Confidentiality: Precept 9
- Courtesy and Cooperation: Precept 10
- Advertising: Precept 11
- Titles and Designations: Precept 12
- Violations of the Code of Professional Conduct: Precepts 13 and 14



Focus on 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.”

[emphasis added]



Precept 13 and Self-Regulation

The importance of Precept 13 to Self-Regulation:

- Actuaries are in best position to observe other actuarial work.
- Actuaries have the best knowledge to audit poor actuarial work.
- If a self-regulating profession does not prevent unethical behavior and practice by relying on members to monitor compliance, it is highly likely that some other body will emerge who can and will assure the same.

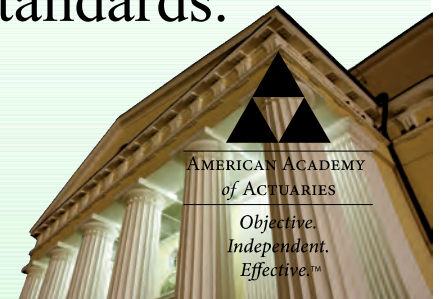


U.S. Qualification Standards (USQS)



Background

- Precept 2 of the Code of Professional 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.”
(emphasis added)
 - “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.”
(emphasis added) (Annotation 2-1)



Structure of USQS

- The structure of the revised U.S. Qualification Standards (USQS) (effective January 1, 2008) is:
 - Section 1. Introduction (including definitions)
 - Section 2. General Qualification Standard
 - Basic Education and Experience Requirements
 - Continuing Education Requirements
 - Section 3. Specific Qualification Standards (when necessary)
 - Section 4. Changes in Practice and Application
 - Section 5. Acknowledgement of Qualification
 - Section 6. Recordkeeping Requirements



Scope of USQS

- If you issue Statements of Actuarial Opinion (SAOs) - —and almost every actuary does—in the U.S., then you are required under Precept 2 of the Code of Professional Conduct to meet the USQS.
- If you are rendering actuarial services outside the U.S, then the Code provides that you will still need to be mindful of whether you must meet another jurisdiction’s qualification standards.



Statement of Actuarial Opinion (SAO)

- **“Statement of Actuarial Opinion”** (defined in the USQS) 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.”
- **“Actuarial Services”** are defined in the Code of Professional Conduct (and the same definition is incorporated in the USQS) as “[p]rofessional 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.”
- **Appendix 1** to the revised USQS sets forth various examples of what constitutes an SAO and what does not constitute an SAO.



Section 2 of the USQS

Basic Education and Experience Requirements

Must meet all of the following criteria:

- Be (one or more):
 - an Academy member
 - a Fellow or Associate of the Society of Actuaries (SOA) or the Casualty Actuarial Society (CAS)
 - a Fellow of the Conference of Consulting Actuaries (CCA)
 - a Member or Fellow of the American Society of Pension Professionals and Actuaries (ASPPA) or
 - a fully-qualified member of another International Actuarial Association (IAA)-member organization AND
- Have three years of responsible actuarial experience AND
- Be knowledgeable through examination or documented professional development of the Law applicable to the SAO.



Section 2 of the USQS

Basic Education and Experience Requirements

In addition, if you are issuing an SAO in an area covered by a specialty track offered by the Society of Actuaries or in a practice area covered by CAS or ASPPA exams, **one** of the following must be met:

- Attain the highest possible level of actuarial designation in IAA full-member organization (other than the Academy) *and*
 - complete a specialty track in an area relevant to the SAO *or*
 - have at least one year responsible actuarial experience in the relevant area under the review of an actuary qualified to issue the SAO; *OR*
- Have a minimum of three years of responsible actuarial experience in the relevant area under the review of an actuary qualified to issue the SAO.



Section 2 of the USQS

More on Basic Education and Experience

- Once an actuary is qualified to issue an SAO on the basis of *basic* education and experience, the actuary's basic education and experience requirement is met “forever”; future changes to these requirements do not apply retroactively.
- Obtaining basic ed (likely your first credential) is the first element of becoming qualified to issue SAOs in the U.S.
- You also:
 - need 3 years of responsible actuarial experience and
 - need to meet the CE requirements.



Section 2 of the USQS

Basic education and experience

What if you want to change your area of practice?

- The USQS requires that you get experience in the new practice area under the review of an actuary already qualified in the new practice area.
- The USQS do NOT require you to obtain another *basic* education in a new area, but you would have to obtain responsible actuarial experience (and do the CE).
- Under the USQS, the requirements for changing practice areas are the same regardless of the organization from which the credential was earned, e.g., from the SOA or the CAS.



Section 2 of the USQS

General Continuing Education Requirements

- 30 hours of **relevant** continuing education (CE) annually
- At least six hours on “Organized Activities”
- At least three hours on professionalism topics
- General business subjects, which are not required under the USQS, are limited to no more than three hours annually



Section 2 of the USQS

Relevant Continuing Education

Section 2.2.7 of the General Qualification Standard defines continuing education as “relevant” if the material

1. broadens or deepens an actuary’s understanding of one or more aspects of the work an actuary does or
2. expands an actuary’s knowledge of practice in related disciplines that bear directly on an actuary’s work or
3. facilitates an actuary’s entry into a new area of practice.



Section 2 of the USQS

Organized and Other Activities

■ “Organized Activities”

- Involve interaction with actuaries or other professionals working for different organizations.
- Conferences, seminars, Webcasts, in-person or online courses, committee work.
- In-house conferences count only if there are outside speakers.

■ “Other Activities”

- Reading actuarial literature, statutes, regulations, relevant technical or other professional topics
- Writing papers or articles
- Listening to tapes of meetings
- Relevant in-house meetings
- Studying for/drafting exams
- Preparing to speak or lead a discussion



Section 2 of the USQS Professionalism Topics

- Include, but are not limited to:
 - studying, reviewing, or providing input on an Exposure Draft of an ASOP;
 - studying or reviewing the Code of Professional Conduct; and
 - serving on the ASB or a professionalism committee.
- The professionalism component may be satisfied by either organized activities or other activities.
- Excess professionalism credits may be carried forward if the annual CE requirement has been met and exceeded.



Section 2 of the USQS

General Continuing Education Requirements

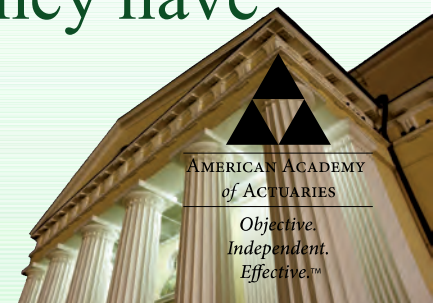
- The CE requirement will typically be met in the calendar year preceding the year in which the actuary issues the SAO.
- However, if an actuary fails to meet the CE requirement in the preceding year, the shortfall may be earned in the year the SAO is issued, but must be met before the SAO is issued.
- A CE hour is defined as **50 minutes** regardless of being an organized activity or other activity (e.g., self study).



Section 3 of the USQS

Specific Qualification Standards

- They apply to actuaries who issue the following SAOs:
 - NAIC Life and A&H Annual Statement
 - NAIC Property and Casualty Annual Statement
 - NAIC Health Annual Statement
- Specific Qualification Standards are developed when an actuary needs to possess *specific* qualifications beyond those required to satisfy the “General Qualification Standard.”
- Apply only to the types of SAOs for which they have been adopted.



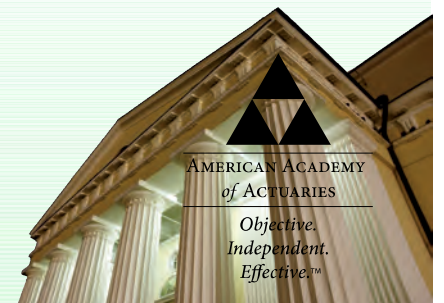
Section 3 of the USQS

Specific Qualification Standards

- To issue an SAO subject to the Specific Qualification Standards, an actuary must successfully complete examinations on specific enumerated topics (or obtain the knowledge through alternative education).
- Experience Requirement: Three years of responsible experience relevant to the subject of the SAO *under the review of* actuary who was already qualified to issue the specific SAO at the time of the review.
- CE Requirement: 15 hours of the 30 (or more) must be directly relevant to the specific knowledge topics



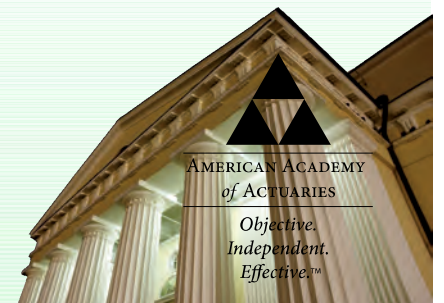
Actuarial Standards of Practice (ASOPs)



ASOPs

■ Precept 3 of the Code of Professional Conduct

An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.



ASB Overview

■ The Actuarial Standards Board (ASB) ...

creates, revises, or amends and repeals ASOPs which provide guidance to all credentialed actuaries who render actuarial services in the USA.

■ Composition of ASB

- Nine members
- 3-year terms
- No more than 2 consecutive terms
- Broadly representative of all areas of actuarial practice
- Appointed by Selection Committee
- Board meets at least quarterly



Actuarial Standards of Practice (ASOPs)

- ASOPs provide
 - Guidance to practicing U.S. actuaries when they do the work and
 - Documentation of then current practice in the event of a later dispute.
- Purpose of guidance is to give the intended users of the actuarial work product assurance as to its quality and suitability.
“Intended users” are an important part of our audience.
- ASOPs do not represent best practice but rather “appropriate” practices.
- Why do you have to comply? Precept 3 of the Code.




ASOP Drafting

- The ASB drafts ASOPs to provide guidance.
- ASOPs are generally not prescriptive.
- The ASB generally avoids endorsing one method (or approach) over other competing methods unless there exists a wide consensus that the one method is superior to the others and is the only appropriate method.



ASOP Overview

- There are now 50 ASOPs!
- The ASB website was significantly updated this past year and you can download it to your mobile device and have this ICON for easy reference:
- To download to your mobile device:
 - Go to www.actuarialstandardsboard.com
 - In browser options menu (appears as  on Apple devices), choose “Add to Home Screen”
- Applicability Guidelines (not authoritative)





Applicability Guidelines for Actuarial Standards of Practice - Health

Please note that the following ASOPs apply to all assignments in all practice areas:

- [1. Introductory Actuarial Standard of Practice](#)
- [23. Data Quality](#)
- [41. Actuarial Communications](#)

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Description of Assignment	Actuarial Standard of Practice (ASOP)																						
	3	4	5	6	7	8	11	12	17	18	19	21	22	25	26	28	32	42	45	46	47	49	
1.0 Appraisals																							
1.1 Estimate value of insurance company, insurance marketing organization, or other entity or block of health contracts, for acquisitions/sale or for tax purposes			5		7		11	12		18	19		25					42	45				
1.2 Perform cash flow testing in developing actuarial appraisals			5		7					18	19		25					42	45				
1.3 Perform due diligence analysis			5		7		11	12		18	19		25					42	45				
2.0 Cash Flow Testing																							
2.1 Perform cash flow testing in determining reserve adequacy, performing pricing studies, evaluating investment strategies, developing financial projections or forecasts, developing actuarial appraisals, testing future charges of benefits that may vary at the discretion of the company			5		7						19	21	22	25				42	45				
3.0 Enterprise Risk Management																							
3.1 All assignments					6	7			12	18			25					42	45	46	47		
4.0 Expert Advice, Witness, and/or Testimony																							
4.1 Perform analysis of legislative proposals in connection with actuarially related matters																							
	Note that any standards relating to the subject on which the actuary is providing expert advice would also apply.																						
4.2 Provide expert witness testimony in connection with actuarially related matters									17														
	Note that any standards relating to the subject on which the actuary is providing expert advice would also apply.																						
5.0 Financial Analysis, Projections, Reserving, and Reporting																							
5.1 Develop financial and other projections	3		5		7	8	11	12		18	19	21	22	25				42	45				
5.2 Estimate incurred health claim liabilities			5				11					21	25			28		42					
5.3 Estimate value of insurance company, insurance marketing organization, or other entity or block of health contracts, for acquisition/sale or for tax purposes			5		7		11	12		18	19	21	25			28		42	45				
5.4 Perform analysis of health insurance risk-based capital and similar measures			5		7		11											42	45				
5.5 Perform asset adequacy analysis			5		7		11	12					22					42	45				
5.6 Perform cash flow testing in determining reserve adequacy, performing pricing studies, evaluating investment strategies, developing financial projections or forecasts, developing actuarial appraisals, testing future charges of benefits that may vary at the discretion of the company			5		7						19	21	22	25				42	45				
5.7 Perform trend analysis			5										25					42	45				
5.8 Recognize actuary's responsibility to the auditor in connection with preparation or review of audited financial statements												21						42	45				
5.9 Perform valuation of incurred liabilities and other items for actuarial opinions and financial statements (for life/health/HMOs/health service corporations/CCRCs)	3		5	6	7	8	11	12		18	19	21	22			28		42	45				
6.0 Group Benefits for Retired and Active Employees																							

ASOP No. 1 – “Must/Should”

- **Section 2** – Definitions, Discussions, and Related Guidance: “Must/Should”
 - Subtle but important distinction.
 - **Must** = ASB does not envision any scenario where there would be a reasonable alternative.
 - **Should** = What is normally the appropriate practice to follow.
 - “Should consider”
 - Allowed to deviate if actuary follows ASOP No. 41.



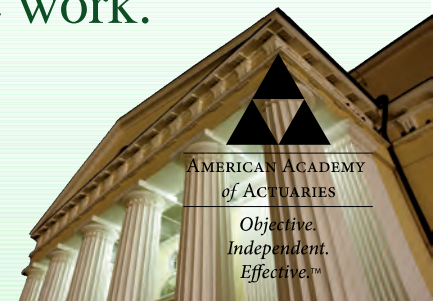
ASOP No. 41 – Cross Practice

- Applies to communications that include:
 - Actuarial opinion, or
 - Other actuarial findings.
- **Definitions:**
 - **2.1 – Actuarial Communication** – A written, electronic, or oral communication issued by an actuary with respect to actuarial services
 - **2.4 – Actuarial Report** – The set of actuarial documents that the actuary determines to be relevant to specific actuarial findings that is available to an intended user
 - **2.8 – Oral Communication** – An actuarial communication made orally that has not, to the knowledge of the actuary, been recorded or transcribed



ASOP No. 41 – Cross Practice

- The actuary is responsible for all assumptions used in the work unless explicitly disclosed.
- Requirements for disclosures are organized in a single section.
- The actuary must be prepared to identify any content that omitted and justify that omission.
- If the actuary deviates *materially* from the guidance of *any* ASOP, he or she can comply with that ASOP by providing “an appropriate statement in the actuarial communication with respect to the nature, rationale, and effect of such deviation.”
- Another actuary should be able to review the actuarial report and make an objective appraisal of the reasonableness of the work.



Actuarial Board for Counseling and Discipline (ABCD)



The ABCD

- Two primary functions:
 - Respond to requests for guidance (RFGs) on professionalism issues, and
 - Considers complaints about possible violations of the Code.
- ABCD will also mediate dispute between actuaries and others if all parties agree to it.
 - Facilitate resolution of issue without inquiry.



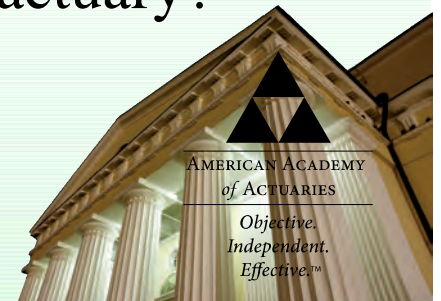
Requests for Guidance (RFGs)

- Actuaries seeking guidance on an actuarial matter that they believe may affect their obligations under the Code .
- Confidential and can be made anonymously.
- An individual member of the ABCD or the whole ABCD may respond to the inquiry with confidential advice on good professional practice.
- RFGs are not a substitute for peer review.



Examples of RFG Topics

- How do I know if I am qualified?
- How can I become qualified?
- How can I do a job that involves more than one area of expertise?
- How much can I rely on my supervisor?
- How much can I rely on my staff?
- How much documentation of my work should I save?
What if I leave my company?
- When should I refuse an assignment?
- When should I make a complaint about another actuary?
- When is a violation of the Code material?
- When is a violation of the Code resolved?



Complaints

Inquiries into possible material violations of the Code can be initiated by

- a complainant,
- receipt of outside information, or
- other means (i.e., newspaper article).



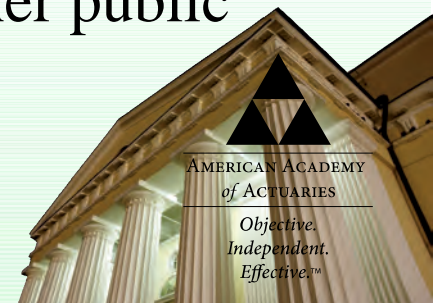
The ABCD can initiate an inquiry without a complaint from an actuary or outside source.

Example:

An ABCD board member sees a newspaper article about an actuary being indicted.

That member can bring the information to the Chair and Vice Chairs of the ABCD for them to decide whether a possible material violation exists.

If they agree one may exist, they can vote for the ABCD to initiate an inquiry based on that article and any other public documents they find researching the indictment.



ABCD Complaint Process

- Complaint sent to Subject Actuary (SA) and a response is requested.
- ABCD Chairperson and Vice Chairs do preliminary review and decide whether to
 - dismiss the case (with or without guidance),
 - investigate further, or
 - refer the case for mediation.
- If decision is to continue with investigation, an investigator is appointed by the ABCD and notice of the investigator is sent to SA.
 - SA can object to investigator for good cause.



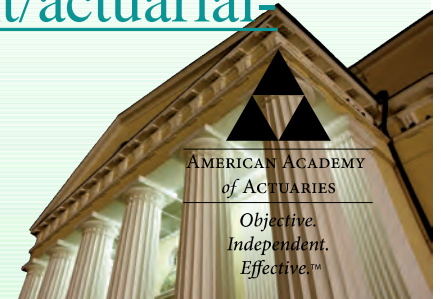
Findings and Recommendation

- After hearing, ABCD decides whether to
 1. request additional information,
 2. dismiss the case,
 3. confidentially counsel the subject actuary, or
 4. recommend that the subject actuary be disciplined.
- If decision is #4 (discipline), ABCD writes a Findings and Recommendation report. Disciplinary recommendations may include
 - private or public reprimand,
 - Suspension, or
 - expulsion from membership (i.e. losing one's actuarial credentials).
- ABCD does not impose discipline: Findings and recommendations sent to membership organizations.



Professionalism Resources

- Archive of Professionalism Webinars free to Academy members: <http://www.actuary.org/professionalism-webinars>
- Library of Discussion Papers on various professionalism issues: <http://www.actuary.org/discussion-papers>
- Academy webpage for news and other professionalism resources: <http://www.actuary.org/content/professionalism>
 - * Code of Conduct
 - * Qualification Standards
 - * Standards of Practice (ASB)
 - * Counseling and Discipline (ABCD)
- Qualifications Attestation Form: <http://attest.actuary.org>
- eLearning Modules: <http://www.actuary.org/content/actuarial-elearning-center>



Questions?

