

# DEVELOPMENTS IN ACTUARIAL PROFESSIONALISM IN 2016-17

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AMERICAN ACADEMY of ACTUARIES

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# The American Academy of Actuaries

- The American Academy of Actuaries is a 19,000 member professional association whose mission is to serve the public and the United States actuarial profession.
- To accomplish this, the Academy provides for the establishment, maintenance, and enforcement of high professional standards of actuarial **conduct**, **qualification**, and **practice**.
- Any interpretation or opinion offered by Mr. Ward today does not constitute an official statement by the Academy.



# Objectives of Today's Presentation

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1. Review the basic structures and key elements of U.S. actuarial professionalism
2. Discuss recent developments in actuarial professionalism
3. Identify tools and resources that are available to help actuaries keep up-to-date on professionalism



# Web of Professionalism: Basis of Self-Regulation



- The Code of Professional Conduct
- U.S. Qualification Standards (USQS)
- Actuarial standards of practice (ASOPs)
- Counseling and discipline

# Code of Professional Conduct



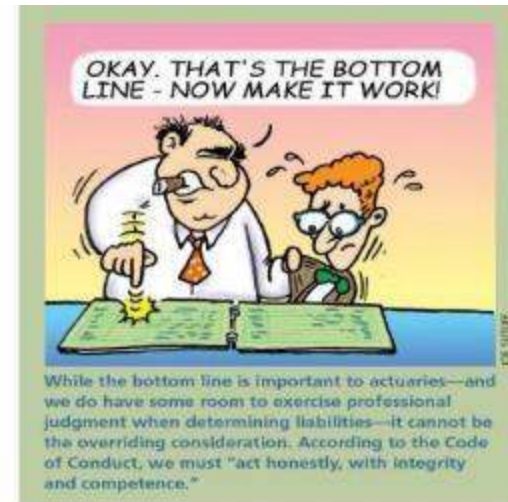
# Code of Professional Conduct

- The current identical Code was individually adopted by the five U.S.-based actuarial organizations (Academy, ASPPA, CAS, CCA, and SOA) and took effect Jan. 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.
  - Most complaints to, and 80% of requests for guidance handled by, the ABCD in 2016 involved alleged material violations of Precepts 1, 2, and/or 3.

# 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

## 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.





# Standards of Practice

## 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

## Practical Example: Big Data and Actuarial Professionalism

*Professionalism webinar, June 2016*

**“With great power comes great responsibility”**

*– Spider Man, 2002, Uncle Ben to Peter Parker*

### 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.

**Annotation 1-2.** An Actuary shall not provide Actuarial Services for any Principal if the Actuary has reason to believe that such services may be used to violate or evade the Law or in a manner that would be detrimental to the reputation of the actuarial profession.

**Annotation 1-4.** An Actuary shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on the actuarial profession.



## Practical Example: Big Data and Actuarial Professionalism

*Professionalism webinar, June 2016*

- Applicable law includes, but is not limited to
  - State insurance laws and regulations
  - The Unfair Claims Practices Act and Unfair Trade Practices Act
  - The Fair Credit Reporting Act
  - Gramm-Leach-Bliley Act privacy provisions
- Questions to consider about Big Data and Precept 1
  - Does your approach comply with applicable law – both letter of the law and in spirit?
  - Are certain permissions needed?
  - Are you comfortable describing what you are doing to stakeholders (consumers, insurance companies, providers, DOI, auditors, etc.)?



# U.S. Qualification Standards



# Rooted in Precept 2

- **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.” *[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)

# USQS—SAO—COQ

- Academy Board adopted the current *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* (USQS) in 2008.
- USQS defines a Statement of Actuarial Opinion (SAO) as having two components:
  - (i) an opinion expressed by an actuary in the course of performing actuarial services; and
  - (ii) an opinion that is intended by the actuary to be relied upon by the person or organization to which it is addressed.
- The Academy's Committee on Qualifications (COQ) is the authoritative source for questions about the USQS.

# Scope of USQS

- If you issue SAOs in the U.S. — and almost every U.S. actuary does — Precept 2 of the Code requires you to meet the USQS.
  - ▣ If you render actuarial services outside the U.S., the Code requires you to observe the applicable qualification standards for that jurisdiction.
- Three essential components in USQS
  - ▣ Basic education
  - ▣ Experience
  - ▣ Continuing education



# USQS Structure

- 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

## USQS: Section 2

### Basic Education and Experience Requirements

- Must be
  - ▣ an Academy member,
  - ▣ a Fellow or Associate of the SOA or the CAS,
  - ▣ a Fellow of the CCA,
  - ▣ a Member or Fellow of ASPPA, or
  - ▣ a fully qualified member of another IAA-member organization;
- Must have 3 years of responsible actuarial experience; and
- Must be knowledgeable through examination or documented professional development of the Law applicable to the SAO.

## USQS: Section 2

### Basic Education and Experience Requirements

- *In addition*, to issue an SAO in an area covered by an SOA specialty track, or by CAS or ASPPA exams, you must
  - Attain highest possible actuarial designation in IAA full-member organization (other than Academy) **and** complete a specialty track in an area relevant to the SAO; **or**
  - Attain highest possible actuarial designation in IAA full-member organization (other than Academy) **and** have at least 1 year responsible actuarial experience in the relevant area under the review of an actuary qualified to issue the SAO; **or**
  - Have at least 3 years of responsible actuarial experience in the relevant area under the review of an actuary qualified to issue the SAO.

## USQS: Section 2

### General Continuing Education (CE) Requirements

- 30 hours of relevant CE annually
  - At least 6 hours on “Organized Activities”
  - At least 3 hours on professionalism topics
  - General business subjects
    - not required under the USQS
    - capped at 3 hours annually

# USQS: Continuing Education

- You must make a “reasonable, good-faith determination” of what CE opportunities enhance your ability to practice in a desired field.
- CE must be “relevant.” That is, it must
  - ▣ broaden or deepen your understanding of one or more aspects of your work;
  - ▣ expand your knowledge of practice in related disciplines that bear directly on your work; or
  - ▣ facilitate your entry into a new area of practice.

## USQS: Section 3

### Specific Qualification Standards

- 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
- Apply only to the types of SAOs for which they have been adopted.
- Are developed when an actuary needs to have *specific* qualifications beyond those required to satisfy the General Qualification Standard.

## USQS: Section 3

### Specific Qualification Standards

- Education Requirement
  - ▣ Successfully complete examinations on the topics listed in section 3.1.1 (or obtain the knowledge through alternative education as in section 3.1.2).
- Experience Requirement
  - ▣ Three years of responsible experience relevant to the subject of the SAO *under the review of* an actuary who was qualified to issue the specific SAO at the time of the review.
- CE Requirement
  - ▣ 15 of the 30 must hours be directly relevant to the topics listed in 3.1.1.

# Look in the Mirror Test

- Not a purely subjective test
- Requires you to
  - ▣ examine your professional qualifications objectively (basic and continuing education and experience) and
  - ▣ make a reasoned judgment about whether you can fulfill the requirements of the USQS and your obligations under the Code:
- The bar under Precept 2, Annotation 2-2, is very high:
  - ▣ “The absence of applicable qualification standards for a particular type of assignment . . . does not relieve the Actuary of the responsibility to perform such Actuarial Services only when qualified to do so . . . .”
  - ▣ Professionalism Counts article, April 2016



# New USQS FAQs 2016

- Long-Term Care (section 2.3.2)
  - ▣ Blend of life and health elements
  - ▣ Qualified if qualified in either life or health
  - ▣ CE should include all areas of practice relevant to SAO, including LTC
  - ▣ Prudent to work with actuary qualified in complementary area
- Changing practice area (section 4.1)
  - ▣ Must satisfy basic education and experience requirement for new area
  - ▣ Not required to take exams, but may do so
- Specific Qualifications Experience (section 3.2)
  - ▣ Not required to work directly under reviewing actuary, but reviewing actuary must have reviewed the actuary's work and been qualified to issue the relevant SAO at the time of review

# Other Qualifications Highlights

- Webinar: Professionalism and the U.S. Qualifications Standards, March 2016
  - ▣ Webinars available to Academy members on our website
  - ▣ Covers material in the FAQs to the USQS <http://www.actuary.org/professionalism/faqs-revised-qualification-standards>
- Life and Health Qualifications Seminars annually

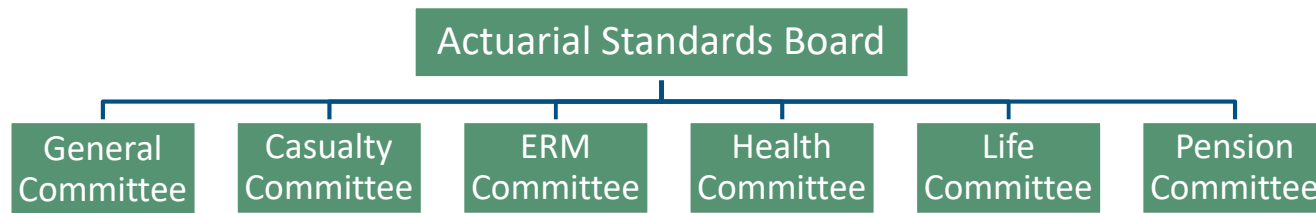
# Helpful Tool: Attestation Form

- ▣ Available to Academy members at [attest.actuary.org](https://attest.actuary.org)
- ▣ Specific and General Qualification tracks
- ▣ Can complete multiple attestations for multiple SAOs
- ▣ Can download complete attestation package (form and attachments)
- ▣ Printable

# Actuarial Standards of Practice



# ASB Structure

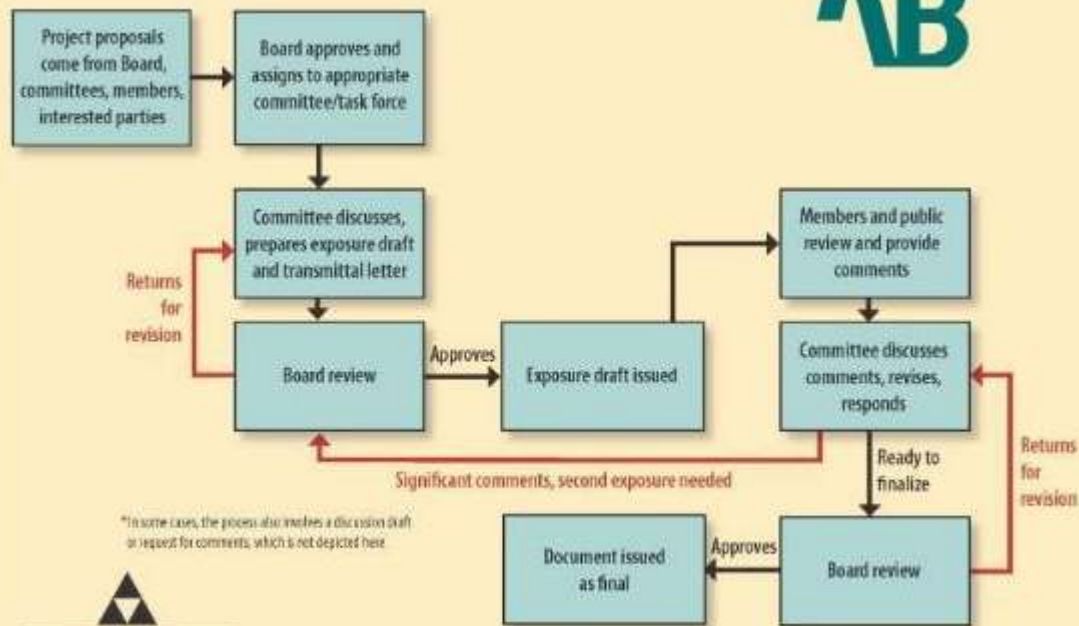


- The ASB's 9 members broadly represent of all areas of actuarial practice.
- ASB members play a standard-setting role, not an advocacy role, and serve the profession rather than any individual interest groups or coalitions.

# Standards

- Precept 3 requires Actuaries to comply with ASOPs.
- ASOPs identify what the actuary should consider, document, and disclose.
  - ▣ They also provide a basic framework for other considerations:
    - legal/regulatory requirements,
    - professional requirements,
    - evolving actuarial practice, and
    - the actuary's professional judgment.
  - ▣ See July and August 2016 Professionalism Counts articles on ASOP 1
- ASOPs provide guidance for appropriate practice, not merely codify current practice or best practice.
- Disclosure is a cornerstone of compliance.

## Actuarial Standards-Setting Process\*



\*In some cases, the process also involves a discussion draft or request for comments, which is not depicted here.



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## Overview of Cross-Practice Standards

- Cross-practice and practice-specific standards work together to provide actuaries with effective guidance for appropriate practice.
- Most cross-practice standards provide guidance for appropriate practice that is common across all practice areas.
- Cross-practice standards help to articulate broad principles and align terminology across practice areas.
- Together with the Code of Professional Conduct, cross-practice standards help to unify the actuarial profession.



# Structure of ASOPs



**Cross-Practice ASOPs**

ASOP 1 Introductory ASOP	
ASOP 41 Actuarial Communication	

ASOP 12	Risk Classification
ASOP 17	Expert Testimony by Actuaries
ASOP 21	Responding to or Assisting Auditors...
ASOP 32	Social Insurance
ASOP 23	Data Quality
ASOP 25	Credibility Procedures
Exposure	Modeling
Exposure	Assumptions

## Practice-Specific ASOPs

<p><u>Casualty</u></p> <p>ASOP 13, 19, 20, 29, 30, 36, 38, 39, 43</p>	<p><u>ERM</u></p> <p>ASOP 46, 47</p>	<p><u>Health</u></p> <p>ASOP 3, 5, 6, 8, 11, 18, 19, 22, 26, 28, 42, 45, 49, 50</p>	<p><u>Life</u></p> <p>ASOP 2, 7, 10, 11, 14, 15, 19, 22, 24, 33, 37, 40, 48</p>	<p><u>Pension</u></p> <p>ASOP 4, 6, 27, 34, 35, 44</p>
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# Recent ASB Actions – Approved

- **Final revisions to**
  - ▣ **ASOP No. 5, *Incurred Health and Disability Claims***
    - Takes effect for any actuarial work product covered by this standard's scope issued on or after September 1, 2017
  - ▣ **ASOP No. 23, *Data Quality***
    - Takes effect for actuarial services for which data were provided to or developed by the actuary on or after April 30, 2017
  - ▣ **ASOP No. 24, *Compliance with the NAIC Life Insurance Illustrations Model Regulation***
    - Takes effect for actuarial services performed on or after April 30, 2017

# Recent ASB Actions – Approved

- **Exposure drafts of**
  - ▣ *Principle-Based Reserves for Life Products*
    - *Comment deadline: May 31, 2017*
  - ▣ *ASOP No. 17, Expert Testimony by Actuaries*
    - *Comment deadline: June 30, 2017*
  - ▣ *ASOP No. 42, Determining Health and Disability Liabilities Other Than Liabilities for Incurred Claims*
    - *Comment deadline: TBD*
  - ▣ *Setting Assumptions*
    - *Comment deadline: April 30, 2017*
  - ▣ *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Funding (Third exposure)*
    - *Comment deadline: April 30, 2017*

# ASB Upcoming Actions – 2017

- Review revisions to
  - ▣ ASOP No. 32, *Social Insurance*
- Review new standards or exposures
  - ▣ *Pricing Life Insurance and Annuity Products*
  - ▣ *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations...*
  - ▣ *Modeling*
  - ▣ *Capital Adequacy Assessment*

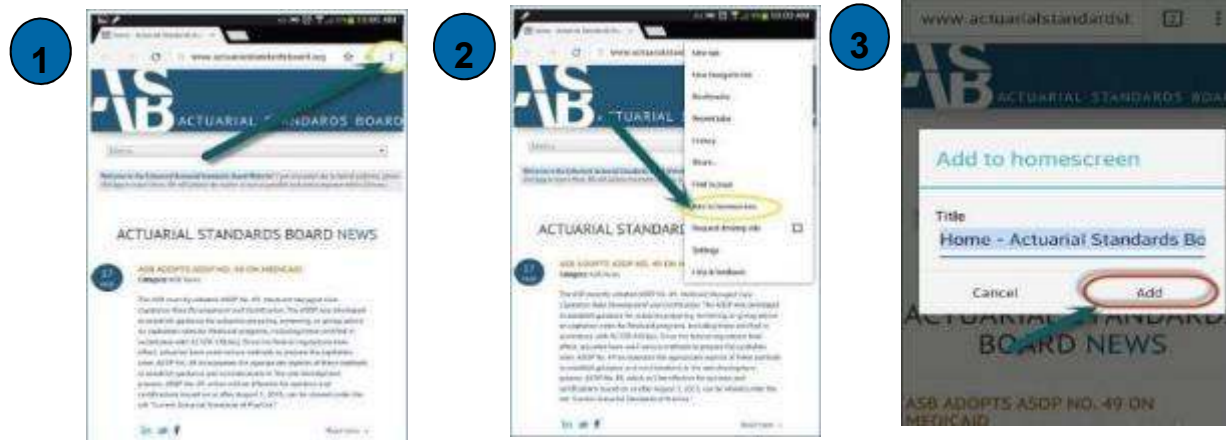
## Tools for the Actuary: ASB Mobile-Friendly Website

- For **iPhones**: Add an icon to your device's home screen for quick access to the mobile site.



## Tools for the Actuary: ASB Mobile-Friendly Website

- For **Androids**: Add an icon to your device's home screen for quick access to the mobile site.



## Applicability Guidelines

- ASOP 1: “Actuaries are responsible for determining which ASOPs apply to the task at hand.”
- The Council on Professionalism’s Applicability Guidelines help actuaries identify which ASOPs apply in specific situations.
- <http://www.actuarialstandardsboard.org/applicability-guidelines/>



**Applicability Guidelines for Actuarial Standards of Practice – Life**

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

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

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Description of Assignment	Actuarial Standard of Practice (ASOP)																							
	2	4	5	6	7	30	11	12	15	18	19	25	26	27	28	29	31	37	40	41	46	47	48	
<b>1.0 Appraisal</b>																								
1.0.1 Estimate value of insurance company, insurance marketing organization, or block of insurance contracts	2		5		7		11	12	15		18	19							25		40	41		
<b>3.0 Enterprise Risk Management/Own Risk and Solvency Assessment</b>																								
3.0.1 Develop the ORSA, performing the modeling, and writing the report					7		11	12		18		21										46	47	
3.0.2 ERM Activities, including but not limited to setting risk tolerances and measuring risk/return tradeoffs					7		11	12		18												46	47	
<b>3.0 Experience Studies and Development of Related Assumptions</b>																								
3.0.1 Perform experience studies	2		5	6					15		18											42	48	
3.0.2 Use experience study results in the development and review of actuarial assumptions used in financial projections, pricing, and determining reserves	2		5	6	7	30		11	15		18		21	22	24	25	31	37	40	41			48	
<b>4.0 Expert Advice, Witness, and/or Testimony</b>																								
4.0.1 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.																							
<b>5.0 Financial Analysis, Projection, and Reporting</b>																								
<b>5.1 Financial Analysis and Projections</b>																								
5.1.1 Perform profitability analysis/projections, including projections of capital, group capital, and development of dividend policies	2		5		7	30	11	12	15		18								25		40	41		
5.1.2 Compute economic capital			5		7		11	12											25			42		
5.1.3 Perform embedded value or market consistent embedded value calculations			5		7	30	11	12			18	19							25		40	41		
5.1.4 Projections in support of corporate forecasts (premiums, fees, policy benefits, expenses) as may be used for ORSA or other reporting, in addition to statutory, GAAP or IFRS reporting					7														25			46	47	
<b>5.2 GAAP Reporting</b>																								
5.2.1 Account for reinsurance transactions			5		7	30	11	12			18	21							25			42		
5.2.2 Determine policy benefit liabilities, deferred acquisition cost assets, and other actuarial items for life insurance companies' financial statements			5		7	30	11	12			18	21							28		43		48	
5.2.3 Determine fair value of insurance liabilities in accordance with FASB requirements			5		7	30	11	12			18	21							25		43		48	
5.2.4 Perform premium deficiencies, recoverability, or loss recognition testing for policyholder assets and liabilities in accordance with GAAP			5		7	30	11	12			18	21									43		48	
5.2.5 Perform actuarial review in connection with a GAAP financial audit or examination		4	5		7	30	11				18	21	22						25		43		48	
5.2.6 Recognize actuary's responsibility to the auditor in connection with preparation or review of audited financial statements																			21				48	





# Actuarial Board for Counseling and Discipline



# The ABCD

- Two primary functions:
  1. Respond to requests for guidance (RFGs) on professionalism issues.
    - “ABCD Guidance: A Critical Element of Actuarial Self-Regulation,” October 2016 Professional Counts article
  2. Consider complaints about possible violations of the Code.
- ABCD will also mediate disputes between actuaries and others if all parties agree to it.
  - Facilitate resolution of issue without inquiry.

# Requests for Guidance

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

# 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 brings the information to the chair and vice chairs of the ABCD. If they decide a possible material violation exists, they can vote for the ABCD to initiate an inquiry based on that article and any other public documents.

# ABCD Complaint Process

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Complaint is sent to Subject Actuary (SA), and a response is requested.



# ABCD Complaint Process

- ABCD chairperson and vice chairs perform 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 investigation, ABCD appoints an investigator and sends notice of the investigator to SA.
  - ▣ SA can object to investigator for good cause.

# Findings and Recommendation

- After hearing, ABCD decides whether to
  - (a) request additional information;
  - (b) dismiss the case;
  - (c) confidentially counsel the subject actuary; or
  - (d) recommend that the subject actuary be disciplined.
- If decision is to recommend 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, but sends findings and recommendations to membership organizations.



# ABCD Annual Report – 2016

- Inquiries
  - Cases in progress in 2016: 33
  - Cases resolved in 2016: 14
    - 9 Dismissed (1 after investigation)
    - 1 Dismissed with Guidance
    - 2 Counseled
    - 2 Recommended Public Discipline
- Primary practice area of Subject Actuaries for cases in progress in 2016:
  - 6 Casualty
  - 3 Health
  - 20 Pension
  - 4 Life



# ABCD Annual Report – 2016

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## Responded 108 Requests for Guidance in 2016

- ▣ 26 Pension
- ▣ 25 Health
- ▣ 23 Life
- ▣ 28 Property & Casualty
- ▣ 6 General

# Recent & Upcoming Professionalism Webinars

- ABCD Panel on ASOP 41: Actuarial Communications
  - December, 2016
- Practical Applications of the Code of Professional Conduct
  - March, 2017
- Actuary-to-Actuary Communications
  - Scheduled June 28, 2017

*Free & unlimited access for members on the Academy's website*



## And Given Recent Events...

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A little walk down  
actuarial professionalism  
memory lane...

# UNKNOWN UNKNOWNNS: CHALLENGES TO PROFESSIONALISM

**October 30, 2015**

**Washington, D.C.**



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# Health: The ACA

## The Affordable Care Act

- Completely restructured the individual health insurance market
- Required a whole new federal regulatory structure to be built from scratch
- Required numerous policy decisions to implement the law

All this occurred in a deeply polarized political environment.

# Challenge: Am I Qualified?

- Many actuaries had decades of experience in what was effectively an entirely different market.
- Work now had to be done under an entirely new set of rules – many of which were still being written.
- Answer cannot be:
  - ▣ Business as usual – of course I’m qualified (even if I do nothing else)
  - ▣ No one is qualified

# Challenge: Am I Qualified?

Possible questions to ask myself

- ❑ Have I familiarized myself with the new law?
- ❑ Am I reading and understanding the new rules as they are released?
- ❑ Am I following sub-regulatory guidance as it's released?
- ❑ Am I talking to others about how to practice in the new environment?
- ❑ Are the techniques and principles I've used in the past still relevant?



# Unknown Unknowns: Lessons Learned

- Be aware of the “big picture” – when something unexpected happens, how do you approach it?
- Consider the Code, USQS, ASOPs
- Consider all relevant information as it becomes known or available, e.g. Practice Notes, White Papers, Seminars
- Network with colleagues, create a culture of sharing information within your organization: connect the dots
- Consider a RFG if appropriate





*Professionalism requires you to act  
with integrity and competence.  
Confront unknown unknowns with a framework  
of decision-making based on the Code.*



# Professionalism Resources

- Professionalism Webinar Archive (free to Academy members)  
<http://www.actuary.org/professionalism-webinars>
- Academy Professionalism webpage  
<http://www.actuary.org/content/professionalism>
  - \* Code of Conduct
  - \* U.S. Qualification Standards
  - \* Standards of practice (ASB)
  - \* Applicability Guidelines
  - \* Discussion papers
- Qualifications Attestation Form: <http://attest.actuary.org>
- eLearning Modules  
<http://www.actuary.org/content/actuarial-elearning-center>



# Questions?

