



SOCIETY OF ACTUARIES

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**Session 22 PD: Actuarial Communications
is Not an Oxymoron**

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ASOP 41: Actuarial Communications is not an Oxymoron

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Agenda for Today

- ASB and ASOPS
- Background on ASOP 41
- First Exposure Draft of ASOP 41
- Second Exposure Draft of ASOP 41
- Practical considerations



Disclaimer

- All statements are the views of the individual presenters.
- Any statements, representations, and expressions of opinions or views that we make are attributable only to us and should not be construed as representing the views of the Society of Actuaries, Academy of Actuaries, or the Actuarial Standards Board.



What is the ASB?

- The Actuarial Standards Board establishes and improves standards of actuarial practice. These Actuarial Standards of Practice (ASOPs) identify what the actuary should consider and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the U.S.



Composition of the ASB

- Nine members
- 3-year terms, no more than 2 consecutive.
- Broadly representative of all areas of actuarial practice.
- Meets quarterly.



Actuarial Standards of Practice

- ASOPs provide
 - guidance to practicing US 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



ASOP Drafting

- The ASB drafts ASOPs to provide guidance.
- ASOPs stress principles rather than providing a cook book.
- Process
 - observe and catalog generally accepted practice
 - determine whether that practice is appropriate or whether higher standard is needed.
- 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.



Process to develop a new ASOP

- Proposal to ASB describes why a new ASOP is needed and what it would cover
- Anyone may submit a proposal
- ASB may approve and refer to Standing Committee (which may request creation of Task Force)
- ASB may decline to approve and return it to proposer



Process to develop a new ASOP (cont)

- Exposure Draft reviewed by ASB
- Exposure Draft distributed to profession and other interested parties for comment
- Comments are now posted on the ASB website
- Standing Committee and/or Task Force reviews comments and makes appropriate modifications
- ASB reviews and edits revised ASOP



Process to develop a new ASOP (cont)

- ASB decides to adopt or re-expose depending on the materiality of the changes from the Exposure Draft
 - Communication process now electronic for speed and efficiency
- ASOP becomes effective several months after adoption by the ASB
- Similar process for repeal of ASOP (except repeal is immediate)



Independence of ASB

- The ASB is independent (of other actuarial bodies, employers, regulators, etc.) in creating, revising and repealing ASOPs.
- We are responsive to the actuarial community through the exposure process and hearings that are periodically held to solicit views regarding the ASB's processes
- We work with CUSP to recognize the actuarial profession's objectives



Issues facing ASB

- Articulating “Appropriate Practice” versus “Best Practice”
- Emerging/changing professional approaches
- Compliance with legal requirements that conflict with ASOPs
- Relationship of ASB with other actuarial organizations
- Input from profession and users of actuarial services
- How to address the CRUSAP recommendation to include non actuaries in the standards process
- Globalization



History of ASOP 41

- ASOP 41 was adopted in 2002
- It addressed communication
 - What an actuary should communicate
 - When an actuary should communicate
 - What an actuary should disclose



Existing ASOP 41

- The 2002 ASOP is still in effect
- It did not address deviation
- Deviation is how to:
 - Deviate from the guidance of an ASOP, while
 - Still complying with ASOP
- The organization of content is somewhat muddled in the existing ASOP



ASOP 41: First Exposure Draft

- Major changes from existing ASOP
 - Actuary is responsible for assumptions etc unless the actuary explicitly disclaims one or more
 - Attempted to clarify (without success) when an “actuarial report” should be issued
 - Moved the required disclosure in the case of a deviation into ASOP 41 (from most other ASOPs)
 - ◆ A deviation is deviating from the guidance of an ASOP while still complying with the ASOP



ASOP 41: First Exposure Draft

- Content of an actuarial report (section 3)
 - ◆ identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work
 - ◆ User is entitled to peer review, and peer reviewer should not need to go back to author



ASOP 41: First Exposure Draft

- Requirements for Disclosures Within an Actuarial Communication (section 3)
 - ◆ Identification of Responsible Actuary – clearly identified in actuarial communication
 - ◆ Conflict of Interest – disclose if not financially, organizationally, or otherwise independent (also see Precept 7)



ASOP 41: First Exposure Draft

- Requirements for Disclosures Within an Actuarial Communication (cont'd)
 - ◆ Reliance on Other Sources for Data and Other Information – make use of assumptions without assuming responsibility
 - ◆ Responsibility for Assumptions and Methods – assumes actuary selects and endorses them unless otherwise disclosed



ASOP 41: First Exposure Draft

- Disclosures (section 4)
 - Identify Principal
 - Scope and Intended Purpose
 - Limitations or Constraints
 - Responsible Actuary
 - Actual or Apparent conflict of interest
 - Information that has a material impact



ASOP 41: First Exposure Draft

- Assumptions, Methods, etc. (section 4)
 - If prescribed by law - disclose
 - If selected by legally empowered other party – disclose
 - If selected by other party who is not legally empowered – disclose and disclaim unless accepting responsibility



ASOP 41: First Exposure Draft

- Deviation From the Guidance of an ASOP (section 4)
 - If an actuary deviates materially from the guidance in an ASOP under any other circumstances, s/he can still comply with the ASOP by disclosing the nature, rationale, and effect of such deviation



ASOP 41 – First Exposure Draft

- Asked four questions
 - ◆ Is it appropriate to require the actuary to be responsible for assumptions and methods used within an actuarial communication unless otherwise disclosed?
 - ◆ This ASOP is titled “Actuarial Communications” even though it also addresses documentation. Does this create any confusion?
 - ◆ Does this draft make it sufficiently clear when the actuary should issue an actuarial report disclosing methods, procedures, assumptions, and?
 - ◆ Are the added disclosure requirements in cases involving deviation clear and appropriate?



ASOP 41: First Exposure Draft

- Responses due in ASB office by December 31, 2008
- 23 responses received
- Now on to the Second Exposure Draft



ASOP 41 – First Exposure Draft

- Asked four questions
 - ◆ Is it appropriate to require the actuary to be responsible for assumptions and methods used within an actuarial communication unless otherwise disclosed? **Fine**
 - ◆ This ASOP is titled “Actuarial Communications” even though it also addresses documentation. Does this create any confusion? **No**
 - ◆ Does this draft make it sufficiently clear when the actuary should issue an actuarial report disclosing methods, procedures, assumptions? **No**
 - ◆ Are the added disclosure requirements in cases involving deviation clear and appropriate? **Yes**



ASOP 41 – Comments received on First Exposure Draft

- Confusion over Actuarial report and when is it required
- Confusion over handling of oral only communication
- Otherwise positive and supportive



ASOP 41: Second Exposure Draft

- Currently being worked on by the ASB General Committee
- We expect to present a final draft to the ASB in December
- We are hoping to publish the second exposure draft in January
- Comments here are my opinion and may not appear in the second exposure draft



Oral Communication

- ASOP now applies to oral only communication (as well as written communication)
 - ◆ Oral communication must follow the code of conduct
 - ◆ The content needs to recognize the forum and audience
 - ◆ If an oral communication is documented (for example in a follow up e-mail) that document is subject to ASOP 41



Actuarial Report

- Actuarial report significantly changed:
 - ◆ set of all communications (other than oral) on a topic available to an intended user;
 - ◆ may comprise several components (memos, e-mail, web site, etc.)
 - ◆ should have a “head page” indexing each component
 - ◆ may be different for different intended users
 - ◆ should enable peer review without needing any other non-public document



Schedule for Second Exposure Draft

- The ASB expects to issue a second exposure draft Jan 2010
 - ◆ General Committee is now busily drafting
 - ◆ Expect to present a draft to the ASB in December
 - ◆ Expect to release a second exposure draft in January



Actuarial Communications – Practical Considerations

- Written: Attention to detail reflects upon your work!
 - Documents that have errors or are poorly written can completely negate the impact of excellent work
 - Pretty is important, even if we would prefer that our work speak for itself



Actuarial Communications – Practical Considerations

- Oral
 - Phone calls can make it difficult to gauge the level of audience understanding
 - Usually best to follow up oral advice in writing
 - ◆ May clarify something that wasn't understood
 - ◆ Helps you to document what was said in case you need to refer back to it in the future



Actuarial Communications – Practical Considerations

- Electronic
 - Emails can be **too** easy to send
 - ◆ Make sure you adhere to actuarial communications standards even in simple emails
 - ◆ Always review an email before you hit the send button
 - ◆ Emails are frequently SAOs
 - Assume everything you put in an email will be seen beyond the Principal
 - Beware the “Reply to all” button!



Actuarial Communications – things to think about

- Clear
 - Know your audience (the Principal)
 - Do not underestimate the power of charts and tables
 - Consider whether bullets vs. prose might help with clarity
 - Seek peer review



Actuarial Communications – things to think about

- Appropriate
 - Is the form of communication appropriate for the content?
 - ◆ More substantial and material findings may indicate more formal communication
 - ◆ When in doubt, put it in writing
 - Again, know your audience



Actuarial Communications – things to think about

- Actuarial reports – general rule
 - Disclose methods, procedures, assumptions and data with sufficient clarity that another qualified actuary could make an objective appraisal of the reasonableness of the work



Actuarial Communications – things to think about

- Take a positive approach
- Think of your audience's perspective
- Pay attention to tone
- Watch acronyms



Actuarial Communications – things to think about

- Use executive summary
- Use appendices
- Disclose and then Disclose...AND then Disclose



Pop Quiz

- What are your observed best practices in communications?
- **What lessons have you learned?**

