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ACHIEVING ACTUARIAL QUALITY

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EVERY ACTUARY IS AWARE OF THE STANDARDS that guide our profession. Chief among these, for Academy members, are the Code of Professional Conduct, the actuarial standards of practice, and the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States. There is no need to elaborate on what these mean for actuaries; to borrow a phrase from the Code, these set “forth what it means for an actuary to act as a professional.”

It is easy to think of these standards as compliance items. The actuary, acting as a professional, looks to the standard and notes that the services performed are consistent with the guidance in the standards.

There is another side to compliance with existing actuarial standards: in complying with professional standards, the actuary provides actuarial services at a quality level expected of the profession. In one sense, it states the same concept. However, complying with actuarial standards might convey “minimum standards” and “doing what is expected of actuaries.” Providing quality actuarial services includes that, but can also mean providing appropriate and

robust actuarial services that meet the needs of our employers and clients.

It is probably safe to say that every employer of actuaries and user of actuarial services believes that the actuary should comply with actuarial standards and provide services at a quality level defined in industry standards. Beyond that, an employer of actuaries may decide to define the expected level of quality in the actuarial services to be provided by the actuaries of the firm; that is, an internal quality framework.

This article describes considerations for the development of a framework designed to promote actuarial services at a quality level meeting the needs of an insurance organization; it is meant to provoke thought among actuaries with respect to projecting a positive image of actuaries in performing quality actuarial services.

For the past three years, I’ve had the leadership role in developing, maintaining and promoting an actuarial quality framework. I’m indebted to others for much of the thought and design that went into the framework. I will explain some of that

thought and design information, highlighting issues with how we’ve addressed them.

The basis for building a company quality framework is the commitment of both actuarial leadership and corporate leadership. The chief actuary and the chief risk officer are key participants; they need to provide a steady level of support for both the development of a quality framework and the encouragement of the actuarial community to follow the developed framework. Equally important, the actuaries in leadership positions company-wide need to support and promote the process.

The simplest starting point for a framework for quality actuarial work needs to address the structure of the framework. We chose to build the structure in four areas:

1) Developing corporate-wide internal standards, based on the actuarial standards of practice.

The actuarial standards are the starting point, but an actuarial quality framework may consider (1) setting a higher bar for certain services, and (2) providing more detail than found in certain areas of the professional



Tom Phillips

standards. In this area, the approach we adopted was to define “actuarial guidelines” to supplement the standards of practice. For example, in pricing, the guidelines note that the pricing actuary should not only perform sensitivity tests of key assumptions (similar to ASOP #7), but the actuary should also use sensitivity testing to determine whether the product contains an “unacceptable level of risk.” Other guidelines cover spreadsheets and models, promoting documentation and peer review.

2) Actuaries in different business areas should manage their own actuarial services.

The actuarial organization of any large company can be guided by the chief actuary, but much responsibility for quality actuarial services must be managed by the actuaries within the different business areas. Many actuarial services performed are unique to their business areas. Thus, while corporate level guidelines for actuarial services provide some standardization, business area practices required a “bottom-up” approach, in addition. Recognizing this, one practical approach is for the actuaries within the business areas to set their own policies that define expectations of quality actuarial services with that area. Our quality framework followed that approach and actuaries in the business areas have developed their own policies with respect to pricing, valuation and documentation.

3) Reviewing actuarial work with respect to the framework.

To make a quality framework real to the actuarial community, a review of actuarial services is important. This is likely to be the most challenging area of a framework.

The review of actuarial work should focus on compliance with the defined internal actuarial framework and not the decisions and judgments of the actuary whose work is being reviewed. The goal is to have a framework that is effective in the company environment. To emphasize the importance of reviews, summary reports on compliance with the framework should be delivered to senior levels of management.

Our framework provides for a regular review of actuarial services provided by all business units, on a rotating basis. This review process generally involves selecting a specific, major actuarial project in a given business area and doing an intense review of the project for consistency with the quality framework.

But an actuarial review should go beyond enforcing the “rules” of the structure. It should also provide feedback and improvements to actuarial processes around the entire organization. Over time, the reviewing actuary sees effective actuarial methodology across the organization and can provide constructive suggestions for better ways to provide services.

4) Education.

Actuarial education and actuarial standards need to be promoted hand-in-hand with the development of a framework for actuarial quality. This can include active promotion of appropriate industry meeting and webcast attendance. In addition, internal educational sessions, both formal and informal, are a good way to keep actuaries current on educational topics. Informal sessions may aim at interactive meetings on topics; the formal sessions make presentations. One way to promote professionalism is to discuss

and respond to new and revised ASOPs.

A framework is a balancing act. It needs to be strong enough that actuarial services can be reviewed and improved where deficient. On the other side of the issue, it would be easy to be overly prescriptive and to create a burdensome checklist for all actuarial services. For a process that is based very much on the cooperation and goodwill of the actuaries located in the lines of business, an overly prescriptive framework would meet resistance and would be unsuccessful.

None of this can be successful without a commitment from the community as a whole. Success with business unit leaders is usually based on the right level of guidance, requirements and support. Success with the entire actuarial community is based on the idea that the framework is a cooperative effort to improve the quality of actuarial work and the status of the actuarial community within the organization.

Going forward, maintenance of a framework will be a dynamic process. New areas are being added to actuarial practice, and general actuarial practice is more complicated. Actuarial standards themselves continue to evolve. The future challenge of any framework for actuarial quality is to be flexible enough to keep up with the changes in actuarial practice. ■

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