



Update on Actuarial Standard of Practice (ASOP) No. 41—Actuarial Communications

By Sharon Giffen

The Actuarial Standards Board (ASB) approved a new version of ASOP No. 41 in December 2010, to be effective on May 1, 2011. This new standard is intended to clarify requirements for the form and content of actuarial communications, including the contents of documentation and disclosures for the users of actuarial opinions and findings. In this article, there is a summary of the new standard, with commentary on changes compared to the previous version. Following this are comments on the implications that may be relevant to actuaries working in smaller companies, with some examples that may provide a sense of what would appear to be appropriate in some specific circumstances. Finally, in closing, there are some questions that remain, which will be left for you to ponder.

Overview of the Standard

ASOP No. 41 defines what an actuary should communicate, when that communication should happen, and what should be disclosed. At the heart of the standard are the definitions [Section 2] of what constitutes an actuarial communication (includes oral communications), an actuarial document (any form that is recorded, including electronically) and an actuarial report (a set of actuarial documents that are relevant to the topic at hand, and are available to the user of the findings).

Section 3.1 specifies general standards for actuarial communication. Sections 3.2 and 3.3 provide standards regarding when an actuarial report should be provided and what it should contain. The specific disclosures for an actuarial report are gathered in section 3.4. Interestingly, in section 3.6, there is specific guidance around oral communications, including the requirement to follow up with a document, if there is a concern that the communication may be passed on to the other parties.

Section 4 provides guidance for the disclosures to be included in an actuarial communication, including some additional

guidance for the contents of an actuarial report [section 4.1.3]. Included as well is some guidance on dealing with situations where the actuarial finding depends upon either someone else, or a prescribed method or assumption. Finally, it also helps us to understand how to handle what would otherwise be a deviation from the guidance in an ASOP.

What's New?

Four new key elements were introduced. First, and importantly, the concept that actuarial communications can be ongoing and interactive was introduced; an actuarial report may be a collection of documents and other communications—which may take place over time and in various forms. This report clarifies what is to be considered an actuarial communication.

Second, it clarifies that, in some situations, full disclosure of assumptions and other supporting information may not be necessary; of course, the actuary should be prepared to defend the decision to omit information.

Third, it gives more specific guidance on the treatment of assumptions. If certain assumptions are provided or prescribed, the actuary must disclose the extent to which the assumptions were validated by the actuary. If no disclosure is provided, it is then assumed that the actuary endorses that particular assumption.

Additionally, there is clarification and alignment of wording, particularly with respect to deviation from the guidance of an SOP. Section 4.4 on deviations from standards applies to all ASOPs. An actuary can comply with an ASOP—without following all of the guidance in the ASOP—by documenting any material deviation, justifying it, and estimating its impact.

Implications for Smaller Companies

Certainly ASOP No. 41 does not provide any differentiation or relief for those actuaries who work in smaller insur-

ance companies. However, the circumstances under which the actuary works may be different, which means we may invoke section 3.3—which allows for documentation to be incomplete, as long as it is appropriate for the user and in the circumstance—more frequently, for our ongoing informal communications.

There are two main areas where the experience of an actuary in a small company is likely to be different from large or even medium-sized firms. First, there are generally significantly fewer human resources to help share the workload. Often there is no actuarial staff or only a one- or two-member actuarial staff. These small staffs may include actuarial students, so there may be very limited assistance in assembling documentation and reports. Second, there is typically a greater propensity to rely on the work of consultants. To what extent, then, does that reliance allow us to form an opinion without documentation?

Staff Size Matters!

In many smaller companies, there is only a very small actuarial staff, sometimes only one actuary. In such a case, there is always a great deal to try to get done; there is always another project waiting as soon as one is complete. That leaves little time for documentation and the assembly of a formal actuarial report, especially for those tasks where the work is not subject to the requirement to be available to auditors. It is important to develop practices to pull the documentation together as you go, and not leave it to the end of the project. Since many of your communications will be read by non-actuaries, it could be that the best peer-reviewer regarding content and clarity might be a non-actuary or student actuary in your firm.

ASOP No. 41 clearly allows for the idea that a report can consist of a collection of documents, including spreadsheets, presentations and notes. In many ways, this makes it significantly easier to pull things together. Electronic files are acceptable, and you can therefore simply create a folder, either within your email system or on a shared server. Then, as you complete a piece of documentation, add it to the folder, and it is now part of your report. Be cautious, however, of having multiple versions in your final folder—you want it to be clear what you finally decided. This allows for the scanning and saving of handwritten notes as well as more formal documentation. The final actuarial report should be coherent; it should be complete, except for documented and justified omissions; and it should allow another actuary familiar with the area of practice to evaluate the reasonableness of the work.

It is important, too, to record those hallway conversations that led to a decision. In the interest of clarity, it is good practice to follow those up with a quick email, just to note the decision and rationale. This is also sound business practice. Who knows when you'll be asked to recall a certain conversation. There are simple techniques that help to guard ourselves from misinterpretation and misunderstanding.

Good documentation requires that your report folder is as complete as is practical and as would be useful to the user. Of course, if you have a more formal process that includes project management disciplines, those notes are a good record of the process as well.

Use of Consultants

Small companies often use consultants extensively, for regular actuarial work or for project-based work. In some cases, the consultant is treated by internal staff as an extension of staff. One would then need to consider how to incorporate the consultant's work into the internal documentation.



Where there is a formal report from the consultant, can the internal actuary simply identify that report as the only documentation for the opinion? Actual facts and circumstances may dictate different answers for different occasions.

Imagine a situation where an external consultant has been retained to develop a new product. The company actuary provides underlying mortality assumptions (based on studies done for valuation) and expense information for administrative and distribution compensation. He asks the consultant to develop other assumptions and do a profitability analysis. In this case, the external actuary is going to document that certain assumptions were provided by the client and will express reliance on those assumptions. The internal actuary would then need to document the missing pieces, but express reliance on the work of the consultant. This would assemble the total requirements of the actuarial report, without having to duplicate work.

In another example, a consultant is called for a quick "off-the-cuff" discussion about the potential appraisal value of an insurance company. This can be a difficult situation to navigate. Are there rules of thumb that are so common as to be not "actuarial findings" that are based on actuarial work? Not likely. So, even in such a situation, the actuary will need to be

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very conscientious about when they have moved into providing “actuarial” advice.

Where Does That Leave Us?

I would like to leave you with two questions that I think are worthy of pondering.

Clarity Versus Detail

First, actuaries have sometimes been accused of not being able to provide a simple, straightforward answer to any question. As a profession, we have the reputation of being ineffective communicators, particularly with those outside the profession. (Have you ever been accused of explaining how to build a watch?)

On the other hand, we have a legitimate need to ensure that we provide advice that is reliable and supportable. ASOP No. 41 enshrines the requirements to ensure that our communication is complete and would allow another actuary to review and assess our work.

How do we reconcile these two needs? How can we become effective communicators with other business people, which requires us to simplify complex subject matters, without shirking our responsibility to provide the documented support on the analysis that led to our conclusions?

Has the Bar Been Raised?

Second, there is an apparent need to assemble far more docu-

mentation than appeared to be required under the previous version of the standard. Despite assurances that the revisions to the standard were not intended to place any additional burden on companies—and that the informality of internal communications is recognized—there is still a concern by some actuaries that “the bar has been raised.” This arises from the question as to whether the intent of section 3.3 is to allow for discretion about whether or not an actuarial report is necessary or discretion solely about what would be required content for the report—in either case under Specific Circumstances.

How will you defend your decision not to provide a user with a comprehensive actuarial report?

The Final Word

If in doubt, document more, rather than less. In the event that you are attempting to reconstruct a project sometime in the future, you’ll be happy you did!

If still in doubt, contact the Actuarial Board for Counseling and Discipline. There is a well-established process to get informal guidance from a member of the board, or to request more formal guidance if the matter so justifies.

Disclaimer: The author is not a member of the Actuarial Standards Board. These comments are the personal opinion of the author and do not necessarily represent the views of any other person or government body. ●



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