



Qualification Considerations for U.S. Actuaries

By Mark Rowley and Brad Shepherd

As we all know, every U.S. actuary has a responsibility to determine whether or not they are qualified for a particular assignment. This requires a thorough understanding of the U.S. Qualification Standards (QS) which are promulgated by the American Academy of Actuaries (AAA). We suspect that much of this article will be a refresher for you, and we hope that is beneficial. In addition, we hope this article will provide some insight on various aspects of the QS. We have included five example situations to encourage you to think about how the qualification standards would apply to some practical, everyday situations.

Background

In order to understand the context of the QS, we first should talk about the Code of Professional Conduct that has been adopted by all five U.S.-based actuarial organizations.

- The Code of Professional Conduct requires actuaries to adhere “to the high standards of conduct, practice, and qualifications of the actuarial profession, thereby supporting the actuarial profession in fulfilling its responsibility to the public.”
- Precept 1 of the code says “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.”
- Precept 2 of the code says “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.”

The QS are issued by the AAA, but by virtue of the Code of Professional Conduct they apply to members of all five U.S.-based actuarial organizations.

Throughout your career, you may have seen examples of poor actuarial work. It is possible that this work was in violation of the Code of Professional Conduct. In these situations we have an obligation under Precept 13 (http://www.actuary.org/files/code_of_conduct.8_1.pdf) to take certain steps to remedy the situation.

It is important to remember that poor quality actuarial work adversely impacts at least the:

- Employer or client of the actuary
- General public
- Insurance company policyholders
- Actuarial profession
- Individual actuary.

Poor quality actuarial work can happen for various reasons. A challenging target date can tempt the actuary to cut corners. A tight budget can make it difficult to hire the consultant you need to provide necessary peer review. When actuaries have to take a position unpopular with their management they might be concerned about their job security.

The goal of the Code of Professional Conduct and the QS is the same—to help actuaries provide high-quality work

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that will serve the public well. The Code of Professional Conduct sets high standards for how actuaries do their work.

QS

The next part of this article refers to various sections of the QS, which can be read in their entirety at http://www.actuary.org/files/qualification_standards.pdf.

Section 2 of the QS defines general qualification standards, both for basic education and experience and continuing education. To talk about the QS a few terms need to be defined:

- Statement of Actuarial Opinion (SAO) is “an opinion expressed by the 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 “professional 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.”

There are various key words in these definitions including *opinion, intended, relied, acting, capacity* and *considerations*. If a qualified actuary does work where an opinion is expressed that was intended to be relied upon while acting in the capacity of an actuary, and the opinion took into account actuarial considerations, then it is within the scope of the QS. An Actuarial Opinion can be oral or written.

Section 3 of the QS defines specific qualification standards. These apply to SAOs listed in Section 3, which include the NAIC actuarial opinions for life, health and property/casualty.

Section 2.1 of the QS discusses additional requirements to issue an SAO when a specialty track is offered by the Society of Actuaries (SOA) or an area of practice is covered by an exam of the Casualty Actuarial Society (CAS) or American Society of Pension Professionals & Actuaries (ASPPA). It is common for small company actuaries to be asked by their employer to work in various practice areas where a specialty track applies within the SOA syllabus. It is often onerous for small company actuaries to meet the requirements of Section 2.1. It can also be onerous for other actuaries. The section requires having completed the vari-

ous specialty tracks or being able to document responsible actuarial experience in each practice area.

The SOA’s current practice areas are: *Corporate Finance and ERM, Quantitative Finance and Investment, Individual Life and Annuities, Retirement Benefits, Group and Health, and General Insurance*.

Let’s go through a few examples.

1. **An actuary obtained the FSA under the Individual Life and Annuities track. Can the actuary issue an SAO that includes investment advice?** One answer is no, because the actuary didn’t take the Quantitative Finance and Investment track. Another answer is yes because there was investment material in the track that the actuary completed. A third answer is no, if the kind of investment advice the actuary is offering is beyond what was learned in the track. Perhaps the advice the actuary needs to give is related to option pricing and hedging strategy. The other critical issue is whether, regardless of the rules in the qualification standards, the actuary can look in the mirror and confidently say that he or she can competently do this. The great majority of actuaries are able to exercise professional judgment and know when they are in over their heads. The ability to exercise professional judgment is crucial to doing quality work and satisfying the code of conduct.
2. **An example very similar to this is when an actuary issues an SAO that includes enterprise risk management (ERM) advice.** We will let the reader fill in the details.
3. **The SOA developed a new specialty track in an area where the actuary is currently qualified—does the actuary need to complete the new specialty track?** The answer is no—the basic education and experience requirements need only be satisfied once.
4. **The actuary is considering taking a new position with a group health company that needs an appointed actuary.** The actuary is currently the appointed actuary for a life company. Must the actuary meet the Specific Qualification Standards for issuing a SAO for signing a health annual statement? The answer is yes. Section 4.1 of the QS discusses what is needed when an actuary changes a practice area.

5. **A small company actuary “dabbles in health.”** The actuary’s company has a small health block. The actuary did not take the Group and Health track and hasn’t done much health continuing education. Can the actuary issue SAOs for this block? There is minimal coverage of health insurance on other SOA tracks. Can the actuary look in the mirror and confidently say he or she can competently do the work? Small companies may not have the budget to hire a health consulting actuary who is clearly qualified. Is it OK for the actuary to issue the SAO because the reserve is so small? The qualification standards don’t address the issue of materiality. Possible options to address this include getting advice from a qualified actuary in that area. It is also worthwhile to explore options for having a qualified actuary review your work.

Parting Thoughts

A possible interpretation of the QS is that they are a competency test rather than a confidence test. If actuaries are competent, but not confident, they will do the right thing by bringing in someone else to help. The danger, and possible Code of Professional Conduct violation, is if they are incompetent, but confident, because they could do poor quality actuarial work.

Actuaries are quite safe from being challenged on their qualifications if they make a reasonable attempt at complying with the standards. Moreover, they enjoy by far the best protection from being challenged if they use good professional judgment and do quality work. They need the ability to look in the mirror and honestly assess whether they can do the work competently.

Actuaries often get asked to do work where they are not qualified. Our advice in that situation is to consider the following:

- Review Precepts 1 and 2 of the Code of Professional Conduct, which will lead you to not do the work on your own.
- Get consulting help.
- Present your dilemma to decision-makers.
- Ask other actuaries for advice. Build a network of other actuaries through the SOA or individual sections. Many small company actuaries have done this successfully through the Smaller Insurance Company Section.

If there is a question about qualification standards it is best to reach out to the Academy’s Committee on Qualifications: <http://www.actuary.org/content/qualification-standards-1>.

We hope this article has been useful for you. We invite your comments on it. Simply contact any of the authors. ●

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