

ASOP 41 – The Do’s and Don’t’s of Effective Actuarial Communication

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ASOP 41 has more day-to-day applicability to our work as actuaries than any other actuarial standard of practice. This statement is true whether you are a health, life, casualty, or pension actuary, or something in between.

It is also true that as you advance through your actuarial career, communicating will demand more and more of your time and effort. How well you succeed at your trade will depend directly on how well you communicate.

This is the first of a two-part series on effective actuarial communications. This article will focus on some fundamental communication do’s and don’t’s. The second part of the series will cover actuarial communications subject to ASOP 41, including your everyday conversations with co-workers.

There are good reasons why you should be familiar with the guidance contained in ASOP 41, Actuarial Communications:

- It’s the law – at least for any actuary belonging to a recognized U.S. Actuarial organization.
- It’s good practice. Like all standards of practice, ASOP 41 defines generally accepted practice.
- It covers oral as well as written communication. You should be aware (and you may be surprised by) how often your every day conversations are subject to ASOP 41.

However, following the guidance in ASOP 41 will not guarantee that you are effectively getting your message to your client, co-worker, or employer. There is both an art and a science to effective communication. As actuaries, we more readily relate to the scientific aspects of effective communications: precise statements; logical conclusions; appropriate caveats. It is the art of communicating, the “soft” edges of the written and spoken word, that often eludes the actuary trying to communicate technical results to the lay world. Wonderfully precise, logical statements are worthless if their meaning is not clear to the reader. Without the art, the science is lost.

Here are some good, fundamental suggestions for communicating effectively.¹

1. Write at your reader’s level. For those of us who work with smaller clients, this presents particular challenges. We don’t always have the luxury of explaining the financial implications of our report with a CFO. If you are delivering the report to the business owner, make sure you are communicating at his or her level.

¹ Taken with edits from *10 Tips for Effective Business Communications* by Tina L. Miller, with the author’s permission.

2. Write the way you speak. In other words, be yourself. If you try to write like someone else, you will end up with an inconsistent message.
3. Take a positive approach. We often have to deliver difficult messages to our clients. If costs are going up, how does the increase for your client compare to others? Has the cost per head gone down? Are cost increases expected to slow in future years?
4. Tell your readers what's in it for them. Each time you prepare a communication, ask yourself, "What's the reader's WIFM?" – WIFM being an acronym for 'what's in it for me?' Then make sure you address your reader's WIFM.
5. Pay attention to your tone. It has long been recommended not to write a letter when you are angry. Do you want results or is your goal to show how angry you are?
6. Be careful of using too many acronyms and technical terms. Does anyone doubt this suggestion is applicable to actuarial science!
7. Be concise. A concise communication is more likely to get across the desired message than a long one. And, be prepared – it will take you longer to write your concise message than to simply ramble on. Thomas Jefferson once began a letter, "My Dear John, I am sorry I do not have time to write you a shorter letter."
8. Edit. Edit. Edit. It is a rare writer who can edit his or her own work well. Too often, you will see what you believe is there, not what actually is. If you are going to edit your own work, edit later when you are refreshed. Better yet, find someone else to edit your work. Another set of eyes will do wonders.

To the foregoing list of general suggestions for communicating effectively, I would add some suggestions specific to your role as an actuary.

1. Use an executive summary. Providing an executive summary up front is an effective way to get the important message(s) in your client's mind before getting bogged down in peripherally relevant information. In 35 years of practice, I have never had someone tell me they did not like the executive summary. Also, forcing yourself to develop an executive summary can help you organize your report in a logical manner.
2. Use appendices. There are many forms of actuarial communication that need to include a lot of data and other information. For example, it may be that you want to include enough information that another actuary could evaluate the reasonableness of your work. (See Section 3.6 of ASOP 41.) On the other hand, your client, the intended primary audience of your work, may have no real interest in the details. Put the details and similar information in an appendix. In that way, you can keep your client focused on the big picture and still provide adequate disclosure.
3. Pay attention to significant digits. Just because the computer spits out an actuarial determination of \$2,306,789.25 does not mean that is the result you should communicate. Seldom, if ever, do the cents matter. Moreover, they imply a degree of accuracy that may not exist. Moreover, \$2.3 million is a lot easier for a reader to understand with one look, than \$2,306,789, and it probably conveys the same message.

4. Disclose. Disclose. Disclose. There is a reason why every ASOP developed over the past decade has a section entitled Communications and Disclosures. Full and appropriate disclosure of methodology, assumptions, data, limitations, and other relevant facts is not only a good communication practice, it is a requirement of ASOP 41.

In part two of this series, we will discuss the breadth of ASOP 41, what should be included in an actuarial report, and how ASOP 41 applies to your everyday oral discussions with co-workers and others.

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Everyday Applications of ASOP 41

In the first article on ASOP 41 and effective actuarial communications (*The Independent Consultant*, Issue No. 5, June, 2004), it was noted that there are three good reasons why you should be familiar with the guidance contained in ASOP 41:

- **It's the law** – at least for any actuary belonging to a recognized U.S. actuarial organization.
- **It's good practice**. Like all standards of practice, ASOP 41 defines generally accepted practice.
- **It covers oral as well as written communications**. Even the most mundane of everyday conversations in your office could be subject to the requirements of ASOP 41.

In this article we will take a look at the breadth of ASOP 41 to give you an idea what kinds of communication are subject to its guidance. I will pay particular attention to what information should be included in an actuarial report and examine how ASOP 41 applies to your everyday conversations in the office.

The Breadth of ASOP 41 – What it covers

Here are three examples of actuarial communications covered by ASOP 41. For most of us, one or more of these kinds of communications occur every day.

Internal oral advice. This morning you sat down with one of the senior consultants to explain the results of the actuarial analysis you did for one of the firm's major clients. The consultant will meet with the client later this week to present your findings along with other information. Your conversation with the senior consultant is subject to ASOP 41.

The email client. The CFO of a client is always busy. You have a good working relationship with her. She sends you an email request to get an "idea" of what next year's policy reserve requirement will be. The email response with your estimate of the reserve is subject to the requirements of ASOP 41. If there is a series of emails, the series of emails in total constitutes an actuarial communication subject to ASOP 41.

The phone estimate. You are the actuary for a small pension plan. Your client needs to know the cash contribution requirement for this year. You call the owner of the business with your determination of the required contribution. Your phone conversation with the owner is subject to ASOP 41. If there is no follow-up report, your conversation may or may not satisfy ASOP 41.

Each of the above examples demonstrates a fundamental concept built into the ASOP. Let's examine them in more detail.

Everyday Oral Communications

Your everyday, in-office conversations with co-workers, bosses, subordinates, or peers can be and often are subject to ASOP 41. Including such conversations with the scope of ASOP 41 is not an unintended consequence. There is an unambiguous logic built into the definitions in Section 2 of ASOP 41 that brings these everyday conversations within its scope.

The standard applies to an actuary issuing an actuarial communication. An actuarial communication is a written, electronic or oral communication to a principal. When an actuary is working in an internal capacity and someone else is communicating the actuary's work...the actuary's employer will generally be the principal.

ASOP 41 recognizes that the requirements for good actuarial communications with regard to in-office conversations should not be the same as for a formal actuarial report. For example, the standard states that the form and content of an actuarial communication should be "appropriate to the particular circumstances, taking into account the intended audience." Where the intended audience is a co-worker, the appropriate content may be much less formal than what is appropriate for a written report to be presented to a client not familiar with actuarial science.

Furthermore, ASOP 41 makes it clear that it is "all of the communications, taken together" that will be evaluated to determine if an actuarial communication satisfies the standard, "even though individual conversations may not." In other words, the standard recognizes the practicalities of our profession and does not expect us to change our way of conducting business.

Nonetheless, there is one aspect related to oral communication that many of us can improve upon. That is documentation. The requirement that an actuary "should create records and other appropriate documentation supporting an actuarial communication" applies directly to oral communications. As noted above, it is not necessary that you document every conversation in great detail – the test is whether all of the related communications taken together satisfy the standard.

The Actuarial Report – What it should include

An actuarial report is a form of actuarial communication that is covered by ASOP 41. It is defined as a formal "written or electronic presentation...of the actuary's findings that records and communicates the actuary's methods, procedures, and assumptions." It is what most of us think of when we hear the words actuarial report.

When an actuary is communicating significant actuarial findings, the actuary should communicate in writing or electronic form "unless agreed to by the principal and the actuary." Thus, oral communication of significant actuarial findings is generally not considered acceptable practice.

ASOP 41 is specific about what should be included in an actuarial report. In addition to the actuarial findings, what should be included in an actuarial report are the general

requirements for any actuarial communication:

- Identification of the principal and the scope of the engagement
- Identification of the responsible actuary
- Disclosure of any non-independence concerns
- Identification of any reliance on other sources
- Disclosure when the actuary is acting as an advocate for a principal
- Disclosure of any prescribed methods or assumptions

and specific only to an actuarial report:

- “Identification of the data, assumptions, and methods 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 as presented in the actuary’s report.”

The requirement that you provide enough information and clarity that another actuary is able to appraise the reasonableness of your work is fundamentally a disclosure requirement. You need not provide enough information that another actuary can duplicate your results, only that he or she be able to appraise the reasonableness of the results. It is my personal opinion, not directly supported by the wording in ASOP 41 that findings based on proprietary data, assumptions or methods do not require disclosure of the proprietary information in order for another actuary to test reasonableness. The test of reasonableness can be done using non-proprietary information with appropriate caveats.

In addition to what ASOP 41 states should be included in an actuarial report, there are some best practice ideas you may want to incorporate into your report.

- Include an executive summary. Providing an executive summary is an effective way to get across your important message(s) before getting into the many details that typically accompany actuarial reporting. Frankly, I cannot imagine an actuarial report without such an executive summary.
- Pay attention to size and order. What you put at the front of your report will be deemed most important by the reader. What you give the most space to will be deemed more important than parts of the report getting less space. Sometimes it is unavoidable that relatively less important information gets lots of space, but there is no reason to give it prominence at the start of your report.
- Use appendices. One way to include adequate disclosure of details without cluttering up a report is to move supporting data and information to appendices.

Personal Responsibility

In closing, I would like to talk about personal responsibility – yours and mine. An actuary may not fall back on a firm’s procedures or guidelines to explain why he or she failed to comply with ASOP 41. You alone are accountable for compliance with all

standards of practice as well as each precept of the Code of Professional Conduct. Precepts 4, 5, and 6 all deal with communication.

The interpretations I have offered in this article are mine, and do not necessarily reflect those of any actuarial organization or body. Specifically, they do not reflect the opinion of the Actuarial Standards Board which does not offer supplemental interpretations of any standards it issues.

Lastly, reading this article is not a substitute for reading and understanding ASOP 41. I have covered much, but certainly not all of the guidance contained in the standard. If I have done my job well, you will have already decided to take a second look at the standard.

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