Session 185 IF, Professionalism in the Everyday Life of an Actuary

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Professionalism in the Everyday Life of an Actuary

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Agenda

• Actuarial Professionalism
  • Code of Conduct
  • ASOPs
  • Practice Notes
  • U.S. Qualification Standards
  • Continuing Education
  • ABCD

• Case Studies
Who is in the room?
Please use your polling device to indicate your primary area of practice.

1. Life and/or annuity
2. Health or long-term care
3. Pension
4. GI / P&C
5. Other
Who is in the room?
Please use your polling device to indicate your primary area of practice.

1. US
2. Canada
3. Other
   (Not US nor Canada)
Who is in the room?
Please use your polling device to indicate your primary reason to attend this session

1. The session topic seemed interesting
2. I heard that there were great presenters
3. I lost all my spending money at the casino
4. Only to meet the professionalism credit
Note that there is a wealth of professionalism-related information on the American Academy of Actuaries’ website:

http://www.actuary.org/content/professionalism
Top Ethical Concern for Actuaries

“Responding to pressure from principals and/or management to select inappropriate assumptions used in pricing or reserving.”

• Key Ethical Concerns Facing the Actuarial Profession: Perceptions of Members of the American Academy of Actuaries, April 2015
Quiz
Which of the following are binding for Actuaries?

1. Code of Professional Conduct
2. Actuarial Standards of Practice (ASOPs)
3. Practice Notes
4. A, B, and C
5. A and B

Correct answers: 5. A and B
Code of Professional Conduct
Code of Professional Conduct

• The Code identifies the professional and ethical standards required of actuaries who practice in the United States.
  • Members of the AAA may order a complimentary pocket-sized copy of the Code:
    http://www.actuary.org/content/code-professional-conduct

• You are required to keep current with the Code as well as applicable law and other rules of professional conduct within your jurisdictions.
Code of Professional Conduct

• The Code contains 14 precepts along with annotations
  • Precepts: Identify the professional and ethical standards with which an Actuary must comply in order to fulfill the Actuary’s responsibility to the public and to the actuarial profession
  • Annotations: Provide additional explanatory, educational, and advisory material on how the Precepts are to be interpreted and applied
Quiz
Which actuarial organization(s) adopted the Code of Professional Conduct?

1. AAA
2. SOA
3. CCA
4. ASPPA
5. CAS
6. All of the Above
7. A and B
8. A, B, and E
Quiz
How long is the Code of Professional Conduct?

1.  1 page  
2.  4 pages  
3.  23 pages  
4.  50 pages  
5.  103 pages

(And the first page is only the introduction and definitions!)
Things that are LONGER than the Code of Professional Conduct

• The printed program for the 2016 SOA Annual Meeting
• The instruction manual for this IKEA bedside table:
• My to-do list from my wife

Bottom line: You should read it – it’s really short!
Precept 1: Professional Integrity

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.

“Integrity is doing the right thing even when no one is watching.”
- C.S. Lewis
Precept 2: Qualification Standards

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.
Precept 3: Standards of Practice

An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.
Precept 10: Courtesy and Cooperation

• Use courtesy and respect

• Cooperate with others in the Principal’s interest
  • Differing opinions are ok
  • You can work for a Principal even if another actuary is already doing so
  • It’s ok to give alternative opinions to a Principal
  • You can (should) consult with the prior actuary, but only with consent of the Principal
  • If you are the prior actuary, you should cooperate with the new actuary
Precepts 13 & 14: Violations of the Code

• If you are aware of a material violation of the Code by another Actuary:
  • First discuss it with the other actuary
  • Then, disclose to ABCD
    • Unless contrary to law, or violating confidentiality

• Material violation:
  • Important
  • Affects the outcome of a situation
Precepts 13 & 14: Violations of the Code

• If asked to provide information or cooperate with a counseling or disciplinary body, you should do so promptly and truthfully
  • Subject to restrictions of Law/ confidentiality

• The ABCD stresses the “C”
  • http://www.abcdboard.org/
Other Precepts

• Precepts 4-6: Communications and Disclosure
• Precept 7: Conflict of Interest
• Precept 8: Control of Work Product
• Precept 9: Confidentiality
• Precept 11: Advertising
• Precept 12: Titles and Designations
ASOPs
Actuarial Standards of Practice

- ASOPs provide guidance on the techniques, applications, procedures, and methods that reflect appropriate actuarial practices in the United States.
- Binding on members of the U.S.-based actuarial organizations when rendering actuarial services in the U.S.
- Also must consider:
  - Legal and regulatory requirements
  - Professional requirements promulgated by employers or actuarial organizations
  - Evolving actuarial practice
  - The actuary’s own professional judgment
Some ASOPs apply to pretty much everything... (1 of 2)

- **ASOP 23: Data Quality**
  - Selection of data
  - Reliance on data supplied by others
  - Reliance on other information relevant to the use of data
  - Review of data
  - Limitation of the actuary’s responsibility
  - Use of data
  - Documentation
Some ASOPs apply to pretty much everything... (2 of 2)

• ASOP 41: Actuarial Communications
  • Requirements for actuarial communications
  • Actuarial report
  • Specific circumstances
  • Disclosures within an actuarial report
  • Explanation of material differences
  • Oral communications
  • Responsibility to other users
  • Retention of other materials
Recently exposed ASOPs

• Assessment and Disclosure of Risk (Pension)
• Modeling (General)
• Compliance with Life Illustrations Model (Life)
• Pricing of Life Insurance and Annuity Products (Life)
Practice Notes
Practice Notes

- Practice notes are non-binding guidance
- Often written in Q&A format
- Offer examples of current and emerging approaches
- Intended to supplement available actuarial literature
- Find them here: https://www.actuary.org/category/site-section/public-policy/practice-notes
U.S. Qualification Standards
U.S. Qualification Standards (USQS)

• Mandatory for all credentialed actuaries who issue Statements of Actuarial Opinion

• Include:
  • Basic Education (i.e., actuarial credentials)
  • Responsible Actuarial Experience (generally three years)
  • Continuing Education
    • 30 hours annually (50 minutes = 1 hour)
      • ≥ 6 hours of organized activities
      • ≥ 3 hours of professionalism (this session counts!)
      • ≤ 3 hours of general business courses
How do you track your CE?

1. Spreadsheet
2. TRACE
3. The SOA’s CPD Tracker
4. Hard-copy records
5. Wait, we’re supposed to keep track of this stuff?
Track your CE

- The SOA’s CPD tracker
  - Web-based (cpd.soa.org)
  - Smartphone app
Quiz

What does ABCD stand for?

1. Americans for Better Care of the Dying
2. Academy of Biblical Character Development
3. Above and Beyond the Call of Duty
4. Actuarial Board for Conduct and Discipline
5. Actuarial Board for Counseling and Discipline

(technically A, B, and C are also correct...but not really relevant to us.)
Actuarial Board for Counseling and Discipline

The Actuarial Board for Counseling and Discipline (ABCD) was established by the U.S. actuarial organizations to strengthen members' adherence to the recognized standards of ethical and professional conduct.

The Board has two primary functions:

- It responds to actuaries' request for guidance on professional issues.
- It considers complaints about possible violations of the actuarial Code(s) of Professional Conduct.

The ABCD’s members also conduct educational outreach efforts, which include making oral presentations and writing magazine articles to help actuaries, regulators, and other stakeholders become more familiar with the ABCD’s work.

Source: http://www.abcdboard.org/about/
How does the ABCD spend its time?

Since 1992

- Dismissed 21%
- Dismissed with guidance 6%
- Counseled 4%
- Mediated 1%
- Recommended private reprimand 0%
- Recommended public discipline 3%

<10% are "disciplined"

Source: ABCD 2015 Annual Report
The ABCD Process from the Inside

• Article: “The ABCD Process from the Inside”
  • Nov/Dec 2015 issue of *Contingencies*
  • Written by an actuary who found him/herself as the subject of an ABCD discipline hearing
  • Describes the process of an ABCD hearing
  • Shares specific things the actuary now does differently as a result of the experience that makes him/her a better actuary
Case Studies
Case Study: Success

Bill realizes in December that he has 40 hours of continuing education credit but does NOT have any Professionalism credits. He sees that there is one webcast in the next week for 75 minutes. He knows that will give him 1.5 units and he plans to read the Code of Conduct for the remaining units. He is surprised that he can read the entire code in less than 8 minutes. He estimates that if he reads it at least 10 times that he will meet the requirement.

As he reads Precept One, he is convicted to act honestly and with integrity, so he determines that just reading the Code ten times in a row might not broaden and deepen his knowledge.
Case Study: Success

Bill finds out that the local University has an Adult education class for 1.5 hour on the topic of Professionalism on January 29. Bill determines that he will not be officially signing any actuarial documents until the very end of January or early February so he can use that course to meet the requirements.

Bill attends the course and finds the course “Professional Attire in the Workplace: Dress for Success” to be very informative and new information.
Success: Discussion Questions

1) Has Bill met the Professionalism requirement?
2) What type of content qualifies as professionalism?
3) Can you read the Code of Conduct or one ASOP many times and count it every time as meeting continuing education?
4) What approaches do you use to meet the professionalism requirement?
5) Did Bill need to notify his employer that he did not meet the requirements by year end?
Case Study: Actuarial Magic

Jane is an actuarial manager working at a mid-size insurance company. She is responsible for new business forecasting.

Jane recently finished developing business distribution assumptions for a new Universal Life (“UL”) product, introduced by the company last year. The product did not sell as well as expected and Jane had to reduce previously optimistic sales assumptions for future years. She produced new business projections for this UL product and summarized them in a report delivered to Anthony, company’s CFO and Jane’s boss, who is not an actuary.
Case Study: Actuarial Magic

Anthony calls Jane into his office, and opens his discussion with: “Listen Jane, I think your UL new business projections are too conservative. If our sales projections are this low, we may lose some of our distribution agents to our competitors. Why don’t you increase the new business sales by 10% for the next 5 years across the board to have a more optimistic forecast? Just work your actuarial magic.”

Jane is perplexed with Anthony’s request. In her career, she has never been asked to change her assumptions without sound justification.
Actuarial Magic: Discussion Questions

1) What should Jane respond to Anthony?
2) Where do Jane’s responsibilities lie?
3) What are the outcomes of Jane’s potential actions?
4) What components of Professionalism does this situation highlight?
Case Study: The slings and arrows of good data

Sylvie oversees long-term care valuations for a major insurer. With a varied product line, Sylvie receives data from many divisions and other data sources, and all have a long history of providing solid data. Sylvie and her staff have been able to use the data, with relatively few changes, in their valuations.
Case Study: The slings and arrows of good data

The CFO is concerned about the cost structure for the long-term care division. The results of a time audit have shown significant time spent on data review, yet the team has found relatively few errors. The Chief Actuary would like to free up Sylvie’s group for more valuable pricing and product development work and has asked that they reduce the time spent in data review and clean-up.
Case Study: The slings and arrows of good data

Sylvie has struggled with how to achieve this objective. She has considered high level checks -- e.g. summary reports showing averages and distributions for ages, claims, etc. While this would save time, she’s concerned that changes in data sources, staff and systems could inadvertently introduce errors into her valuation. The Chief Actuary believes the high level review would be sufficient and would catch any significant errors introduced by these changes.
The slings and arrows of good data: Discussion Questions

1) What is the actuary’s responsibility with regard to the review of data?

2) Can Sylvie rely on the divisions and providers to supply accurate data?

3) How should Sylvie respond to the Chief Actuary’s (and CFO’s) interest in curtailing her data review?
Case Study: Changing Practice Area

John practices in the US. He earned his FSA in 2002 by taking the Individual Life and Annuities Track. He has been working with group life products for the last few years.

His boss has asked him to take an assignment within the company’s growing group disability insurance practice. He’ll be working under the company’s lead actuary for this product. One of his jobs will be to prepare internal reports for the company with recommendations on product pricing, reserves, investment strategies, etc.
Changing Practice Area: Discussion Questions

1) Since the reports will be for internal use only, are they considered to be statements of actuarial opinion?

2) Is John qualified to issue these reports?

3) What are the requirements to become qualified when changing practice areas?
Questions?
Thanks!