



SOCIETY OF ACTUARIES

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By email: 2013QSComments@actuary.org

American Academy of Actuaries
Committee on Qualifications
Attn: Sheila J. Kalkunte, Esq.
1850 M Street, NW, Suite 300
Washington DC 20036

Re: Qualification Standards for Actuaries Issuing Statements of Actuarial
Opinion in the United States ("QS")

Mr. John Morris,
Chairperson, Committee on Qualifications:

This is in response to your letter of May 13, 2013, in which the Committee on Qualifications announced its decision to review the US Qualification Standards (QS) and invited comments from the five US-based professional organizations and their members. We have encouraged individual members of the Society of Actuaries (SOA) to submit their comments to the Committee. The comments in this letter represent the organizational views of the SOA.

We appreciate the Committee's decision to undertake this review. As you are undoubtedly aware, we corresponded and met with the Committee two years ago to discuss concerns that some of our members have expressed with the implications of the QS for actuaries who seek to change areas of practice, who work in smaller or multi-line businesses, or who have non-traditional roles. We believe the issues we raised at that time are still very important, and we will touch on them in our responses to Questions 1 and 5 of your letter.

More recently, and more importantly, we have asked the Committee to recommend a change in examination requirements set forth in the Specific Qualification Standards (Section 3.1.1). We believe the QS should recognize that the basic educational requirement for issuing any of the prescribed NAIC Statements of Actuarial Opinion can be based on the successful completion of relevant examinations administered by any of the Academy or the SOA or the CAS, to the extent those organizations offer the relevant examinations. We will address this suggestion further in our response to Question 6.

With respect to our more recent request – which will serve to recognize that the SOA's General Insurance track satisfies the educational requirements of the Specific Qualification

Standard for NAIC Property & Casualty Statements – we respectfully request that the Committee act on this request expeditiously. We understand the Committee’s desire to address potential revisions to the QS on a comprehensive, holistic manner. We are concerned, however, that action on this straightforward request may be unnecessarily delayed if it is tied up in a comprehensive revision of the QS that involves more complex issues, as well. There are reasons the Committee should consider this request separately and with some urgency:

- Our suggested change to the Specific Qualification Standards raises a simple, discrete issue. The proposed change to Section 3.1.1 involves no interplay with any other parts of the QS, and its resolution is not dependent on the Committee’s consideration of other potential revisions to the QS.
- We believe the suggested change is straightforward and not controversial. (In this regard, please see our separate letter responding to the comment submitted by the Casualty Actuarial Society in its letter dated June 13, 2013.)
- The SOA and members of the profession will need a resolution of this proposal sooner, rather than later. The SOA will be offering exams and modules that are part of this curriculum in the next few months, and it is possible that candidates for Fellowship could complete the General Insurance track by as early as the end of 2014. These members of the profession should not be left to wonder if their Fellowship will be recognized for purposes of fulfilling the Specific Qualification Standard education requirements.

We would therefore ask the Committee to address this particular request and to recommend this particular revision of the QS within the next 12 months.

Responses to the Committee’s Specific Questions

In light of our introductory comments above and our desire to emphasize the importance of the proposed changes to Section 3.1.1 of the Specific Qualification Standards, we will submit our responses somewhat “out of order” and offer first our comment in response to question 6.

6. Section 3.1.1 addresses additional basic and continuing education requirements for actuaries providing NAIC statements of actuarial opinion. Sections 3.1.1.1 (Life), 3.1.1.2 (Property Casualty) and 3.1.1.3 (Health) each list specific topics for actuaries who issue NAIC opinions as shown in the table below. With regard to these specific qualification standards, should the topics be updated? If so, what topics do you recommend adding, deleting or changing?

<i>Life and A&H</i>	<i>Property and Casualty</i>	<i>Health</i>
<i>Policy forms and coverages</i>	<i>Policy forms and coverages, underwriting, and marketing</i>	<i>Principles of insurance and underwriting</i>
<i>Dividends and reinsurance</i>	<i>Principles of ratemaking</i>	<i>Principles of ratemaking</i>
<i>Investments and valuations of assets and the relationship between cash flows from assets and related liabilities</i>	<i>Statutory insurance accounting and expense analysis</i>	<i>Statutory insurance accounting and expense analysis</i>
<i>Statutory insurance accounting</i>	<i>Premium, loss, and expense reserves</i>	<i>Premium, loss, expense, and contingency reserves</i>
<i>Valuation of liabilities</i>	<i>Reinsurance</i>	<i>Social insurance</i>
<i>Valuation and nonforfeiture laws.</i>		

The Topic Listings in Section 3.1.1 are Appropriate

We believe the list of topics identified in Section 3.1.1 appropriately identify the areas of knowledge that an actuary should acquire in order to satisfy the basic education requirements for issuing the respective prescribed NAIC Annual Statements. If any revisions are considered, the SOA recommends that the list of topics should continue to be described in broad, high level terms. When members look for continuing education opportunities that are “directly relevant” to the topics identified in 3.1.1 (as required in Section 3.3), it is beneficial to have this type of list.

Other Recommendations for Section 3.1

As currently written, the three subsections of Section 3.1.1 separately identify the specific actuarial organizations that are recognized to offer relevant examinations for the three prescribed SAOs:

- The Academy or the SOA for NAIC Life and A&H Annual Statements;
- The Academy or the CAS for NAIC Property and Casualty Annual Statements; and
- The Academy, the CAS or the SOA for NAIC Health Annual Statements.

Because actuarial organizations may change the education options offered (as the SOA is doing by offering a General Insurance track), this approach to identifying the organizations

recognized to offer relevant examinations means that the QS can become outdated as such changes are made. We have previously asked the Committee to recommend a change in Section 3.1.1.2 to recognize that relevant examinations for the NAIC Property and Casualty Annual Statements can be administered by the SOA, and we formally reiterate that request here.

Making such a specific change only in Section 3.1.1.2, however, leaves the QS vulnerable to becoming outdated again by potential future changes in educational offerings (for example, if the CAS should decide to expand its educational offerings to include life and annuity topics.) We therefore believe the better approach would be to recognize all three organizations in a general introductory sentence in Section 3.1.1, while using the three subsections to identify the list of topics to be covered for each of the respective NAIC Annual Statements. In this manner, future modifications of the QS would be needed only if new actuarial organizations were formed or were being recognized for these purposes; future revisions would not be needed when the recognized organizations expand (or contract) their educational offerings. The revised Section 3.1.1 might appear as follows:

3.1.1 Successful Completion of Examinations – An actuary should successfully complete relevant examinations administered by the American Academy of Actuaries, the Casualty Actuary Society or the Society of Actuaries on the topics required for each of the specific Statements of Actuarial Opinion, as follows:

3.1.1.1 Statement of Actuarial Opinion, NAIC Life and A&H Annual Statement – (a) policy forms and coverages, (b) dividends and reinsurance, (c) investments and valuations of assets and the relationship between cash flows from assets and related liabilities, (d) statutory insurance accounting, (e) valuation of liabilities, and (f) valuation and nonforfeiture laws.

3.1.1.2 Statement of Actuarial Opinion, NAIC Property and Casualty Annual Statement – (a) policy forms and coverages, underwriting and marketing; (b) principles of ratemaking; (c) statutory insurance accounting and expense analysis; (d) premium, loss, and expense reserves; and (e) reinsurance.

3.1.1.3 Statement of Actuarial Opinion, NAIC Health Annual Statement – (a) principles of insurance and underwriting; (b) principles of ratemaking; (c) statutory insurance accounting and expense analysis; (d) premium, loss, expense, and contingency reserves; and (e) social insurance.

1. *Are there portions of the QS that have prevented otherwise qualified actuaries from practicing in certain areas? If so, how can the QS be modified to allow those actuaries to practice in certain areas while maintaining proper qualification standards?*

Many of our members have expressed concerns that the QS potentially limit their ability to take on broader responsibilities within their organizations, or in some circumstances to provide insight, opinions or advice based on their actuarial expertise. The sources of these concerns are threefold.

The Broad Definition of a “Statement of Actuarial Opinion”

The QS apply to an actuary who issues a Statement of Actuarial Opinion (SAO), which is defined as “an opinion expressed by an 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.” This broad definition is not generally a problem when applied to actuaries performing narrow roles requiring specialized, technical expertise in traditional industries; the kinds of opinions or communications associated with these narrow, technical roles (many of which are listed in Appendix 1 of the QS) are easy to identify as SAOs.

However, the breadth of actuarial training and experience allows actuaries to play a broader role in business activities, and an actuary may be expected to participate in matters beyond those in which the actuary first focused his or her fundamental education and experience. For example, an actuary with specialized life and annuity expertise may work for a multi-line company and may also be asked to provide advice, recommendations or opinions about disability or long-term care policies the company sells. Although the actuary clearly understands that he or she may not be qualified to provide the kind of SAOs requiring specialized techniques for those other products (cash flow testing, rate filings, or actuarial appraisals), the actuary may nevertheless be expected to play a leading role advising the company on business decisions regarding those products.

The profession should encourage the expansion of the actuary’s role beyond that of the narrow, technical expert, and should recognize that an actuary may be well qualified to provide opinions and advice on matters of a more general business nature based on broader business skills and industry knowledge and experience, as well as his or her actuarial expertise. However, since the actuary undoubtedly brings some actuarial training and insight to bear on such matters (along with his or her other skills), there is confusion about whether an actuary offering such advice is rendering an SAO. Here, the definition of an SAO and its potential applicability to such activities may limit the actuary in his or her ability to provide the advice and insight expected or to take on the broader business roles he or she might otherwise perform.

Qualifying for New Areas of Practice

The only realistic way for an actuary to qualify to issue SAOs in a new area of practice would be to obtain responsible actuarial experience in the new area of practice for one year (if a Fellow) or for three years (if an Associate) under the review of a qualified actuary. For actuaries working at small firms, this may not be feasible. The QS also does not recognize that an actuary may be able to obtain relevant and responsible actuarial experience under someone who is not a qualified actuary, but who has similar expertise. By narrowly prescribing the means by which an actuary can be deemed qualified to issue SAOs in a new area of practice, the QS tend to constrain the ability of the actuary to broaden and expand his or her areas of responsibility.

Defining Areas of Practice in terms of SOA Specialty Tracks

Section 2.1 of the QS currently equates each of the SOA's specialty Fellowship tracks with an "area of practice" requiring specified qualifications. This misconstrues the SOA's purpose in setting up Fellowship tracks. The SOA does not set up a specialty track only when it believes that a new "area of practice" has emerged that requires a rigorous qualification process. Tracks are established because of employer and marketplace demand for knowledge, training and understanding on subjects that will benefit from rigorous actuarial education and disciplines. In some cases, those align with practice areas where there is a need for actuarial qualification, but not always.

For example, the SOA incorporates across all specialty tracks significant education in investments and risk management, subjects in which we believe all actuaries must have some grounding in order to practice effectively. At the same time, we have developed Fellowship tracks to provide more concentrated and specialized education on these subjects. But we do not believe the existence of these specialty tracks means that an SOA Fellow in pension practice would have to complete one of these other SOA specialty tracks or satisfy the supervised experience requirements in order to be "qualified" to provide certain advice or recommendations in discussions of risk management or investment issues in their pension practice.

- 2. Are there existing, new, or emerging practice areas that require new specific qualification standards to ensure that actuaries practicing in those areas are qualified to do so? If so, what are these areas and what particular standards should be added to any contemplated specific qualifications?*

Originally, the QS were developed in response to the needs of the regulatory community, addressing the qualifications needed to issue certain public SAOs. These needs are now reflected the Specific Qualification Standards (Section 3). We believe the Specific Qualification Standards should continue to evolve in *response* to the demands of the regulatory community. But in the absence of any new attestation functions required by law

that would drive the need for new specific qualification standards, we do not believe there is a need for the Committee to undertake such an effort.

- 3. In the current QS, is it clear as to what qualifies as organized, other, professionalism and business activities? If not, what changes do you suggest that would clarify these categories of the QS?*

Section 2.2.9 of the QS limits to 3 hours per year the continuing education credit an actuary can claim for “general business courses and educational materials.” We do not believe the QS are clear as to what constitutes “general business courses and education materials.” Section 2.2.7 seems to differentiate “business and consulting skills topics” from “technical topics in the actuary’s area of practice.” But it is not clear whether “business and consulting skills topics” is intended to be synonymous with “general business courses and education materials”, such that the examples listed in Section 2.2.7 are subject to the 3 hour limit. (If so, why are different terms used in 2.2.7 than those used in 2.2.9?) Nor is it clear from either expression how an actuary would treat more technical subject matter covered in an MBA syllabus, such as accounting, finance, or economics. It would be helpful if the QS provided better guidance, at least by way of examples, as to what types of courses or materials are included or excluded from the category that is subject to the 3 hour credit limit.

- 4. Should there be a yearly cap on professionalism CEs? Currently there is a minimum number of professionalism CEs but no maximum. If capped, what maximum amount do you recommend?*

In this respect, we believe that Section 2.2.7, Relevant Continuing Education, is appropriate as written. That section reserves for the actuary the responsibility to determine “what continuing education opportunities will enhance an actuary’s ability to practice in a desired field,” including in the area of professionalism. We see no evidence indicating that actuaries are abusing this discretion granted to them in the qualification standards, and therefore believe there is no need to impose an annual cap on professionalism continuing education credits.

- 5. Currently, the QS only apply to actuaries issuing Statements of Actuarial Opinion in the United States, so actuaries providing Actuarial Services without a Statement of Actuarial Opinion are not required to comply with the QS. Should the QS be expanded to include all Actuarial Services as defined in the Code of Professional Conduct?*

The very phrasing of this question implies that “providing Actuarial Services” encompasses a broader scope of activities than “issuing SAOs.” In other words, an actuary who issues an SAO is necessarily involved in providing Actuarial Services, but an actuary can be involved in providing Actuarial Services without issuing an SAO. While there

presumably is some border separating the realm of issuing SAOs and the realm of Actuarial Services that *do not* involve issuing an SAO, we find that there is no common understanding among our members of where this border lies. As a result of this ambiguity, many members feel the only safe course of action is to treat almost everything they do as “issuing SAOs,” subject to the QS. As discussed in our comment to question 1 above, the broad definition SAO and the potential for overbroad applicability of the QS to an actuary’s work can be problematic.

We applaud the Committee for recognizing that there is ambiguity here, but we do not believe the proper course of action should be to eliminate the ambiguity by making the applicability of the QS even broader than it already is. Rather, we think the QS should remain applicable only in the context of an actuary’s issuance of an SAO. But we also think it is necessary to more clearly and *narrowly* define an SAO, so members will more clearly understand when they are engaged in providing Actuarial Services that require compliance with the QS and when they are not.

Broadening the QS to apply to all Actuarial Service would simply create another definitional problem; namely, differentiating work that involves “Actuarial Services” from work that does not. The Code of Conduct defines Actuarial Services as “Professional services provided to a Principal 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*.” A definition that tautologically identifies a term (*actuarial services*) by use of the term itself (services based on *actuarial* considerations) is not helpful. It reminds one of the former Supreme Court Justice’s inability to define pornography, but declaring “I’ll know it when I see it.”

“Actuarial considerations” can be as specific as the use of actuarial models that quantify reserves, or as general as principles of risk management that elucidate the benefits and drawbacks of risk taking. Because actuarial techniques borrow from and are akin to other disciplines – risk management, economics, demography, finance – it may be hard to distinguish when an actuary’s professional opinions or advice are based on actuarial considerations, economic considerations, other considerations, or all of them at once. Does a person trained as an actuary ever engage in providing advice, recommendations or opinions completely divorced from the use of the actuarial training, methodologies and considerations which are so inbred from his or her years of study and experience? We believe that making the QS applicable to an actuary whenever he or she is engaged in providing Actuarial Services merely worsens a problem that already exists today for actuaries with roles or responsibilities beyond the most narrow, technical and traditional ones.

7. *Are the carryover provisions of the QS understandable or do they need to be clarified? If so, what is confusing to you and what suggestions do you have in clarifying the requirements? In addition, should the maximum carryover be reduced so that an actuary will always need to earn some CEs in a given calendar year? Currently an actuary could carry over a full year's CE from the prior year resulting in no additional CEs for the current calendar year. For both of these questions, please address whether your comments apply to general carryover requirements or to specific, organized, professionalism or business requirements.*

We do not think there is any need for revision of these provisions.

Conclusion

We recognize the value of having a strong code of professional conduct, actuarial standards of practice, and qualification standards. These are particularly important where actuaries are called upon to provide highly specialized, traditional services that are not provided by other business professionals. However, the profession is broadening quickly beyond its traditional roles. The code of conduct, standards of practice and qualification standards must also recognize that actuarial expertise can be used more broadly, and should not constrain actuaries from doing so. We urge the Committee to consider the issues of actuaries practicing outside of traditional roles as it takes on this potential review of the QS.

Respectfully submitted,



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