

2018 SOA Life & Annuity Symposium

May 7–8, 2018

Baltimore, MD



**SOCIETY OF
ACTUARIES®**

Session 25 PD, Professionalism—Smaller Versus Larger Companies

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[SOA Antitrust Disclaimer](#)

[SOA Presentation Disclaimer](#)

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SCOTT HAGLUND

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SOCIETY OF ACTUARIES

Antitrust Compliance Guidelines

Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- **Do not** discuss prices for services or products or anything else that might affect prices
- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- **Do** alert SOA staff and/or legal counsel to any concerning discussions
- **Do** consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone's responsibility; however, please seek legal counsel if you have any questions or concerns.

Presentation Disclaimer

Presentations are intended for educational purposes only and do not replace independent professional judgment. Statements of fact and opinions expressed are those of the participants individually and, unless expressly stated to the contrary, are not the opinion or position of the Society of Actuaries, its cosponsors or its committees. The Society of Actuaries does not endorse or approve, and assumes no responsibility for, the content, accuracy or completeness of the information presented. Attendees should note that the sessions are audio-recorded and may be published in various media, including print, audio and video formats without further notice.

Professionalism – ASOP No. 1

- ASOP No. 1, Introductory Actuarial Standard of Practice
 - Intended to offer guidance on the Actuarial Standards Board (ASB) operations
 - Provides content and format of the standards
 - ASB's intent with respect to terms

Professionalism – ASOP No. 1

- From ASOP No. 1, Introductory Actuarial Standard of Practice
 - ASOPs are for use by actuaries when rendering actuarial services in the United States
 - ASOPs identify what the actuary should consider, document and disclose when performing an actuarial assignment

Professionalism – ASOP No. 1

- From ASOP No. 1, Introductory Actuarial Standard of Practice
 - ASOPs are not the only consideration that affect actuary's work
 - Legal and regulatory requirements
 - Professional requirements by employers or actuarial organizations
 - Actuarial practice
 - Actuary's own professional judgment
 - ASOPs provide basic framework intended to accommodate these additional considerations

Professionalism – ASOP No. 1

- ASOPs are intended to provide guidance for dealing with commonly encountered situations
- Actuaries should comply with those ASOPs that are applicable to the task at hand
 - Actuaries are responsible for determining which ASOPs apply to that task at hand
- ASOPs may not be the only consideration that affect actuary's work
 - Professional requirements by other self-regulatory organizations the actuary may be a member of (e.g. FINRA, CFP Board, CFA Institute)

Review Qualifications

- Actuaries should regularly review their qualifications

Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States

(effective January 1, 2008)

ASOP Resources

- <http://www.actuarialstandardsboard.org/standards-of-practice/>
- Applicability guidelines
 - http://www.actuary.org/files/Applicability_Guidelines.xls

 <p>AMERICAN ACADEMY of ACTUARIES <i>Objective. Independent. Effective.™</i></p>		<p>Applicability Guidelines for Actuarial Standards of Practice – Health</p>		<p>Please note that the following ASOPs apply to all assignments in all practice areas:</p> <ul style="list-style-type: none"> 1. Introductory Actuarial Standard of Practice 23. Data Quality 41. Actuarial Communications 																		
				<p>© 2015 American Academy of Actuaries. Last updated November 2015.</p>																		
Description of Assignment		Actuarial Standard of Practice (ASOP)																				
		3	4	5	6	7	8	11	12	17	18	19	21	22	25	26	28	32	42	45	46	47
1.0 Appraisals																						
1.1	Estimate value of insurance company, insurance marketing organization, or other entity or block of health contracts, for acquisitions/sale or for tax purposes			5		7			11	12			18	19		25			42	45		
1.2	Perform cash flow testing in developing actuarial appraisals			5		7							18	19		25			42	45		
1.3	Perform due diligence analysis			5		7			11	12			18	19		25			42	45		

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CHARLES K. CHACOSKY, FSA, MAAA

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May 7, 2018



Charles K. Chacosky, FSA, MAAA

Director with PricewaterhouseCoopers, Philadelphia, PA



- I am Fellow of the Society of Actuaries and a Member of the Academy of Actuaries.
- Although I have been an SOA and AAA volunteer, I have not served on any of the any of the professionalism boards panels, or committees mentioned herein.
- However, as I like to tell my wife and 3 children (all 4 proudly hold more advanced university degrees than me), I have PhD-like knowledge from more than 40 years of case studies from the school of the ‘real world’.

We will discuss examples of the practical aspects facing small company actuaries contrasted with those of larger organizations

In general, three types of professional standards apply to actuarial work:

- The Code of Professional Conduct (“The Code”), provides ethical guidance
- The U.S. Qualification Standards (“USQS”)
- The Actuarial Standards of Practice (“ASOP”)



For an example of the practical on-the-job differences, let's discuss the first page of the Code

- *Laws may also impose obligations upon an Actuary. Where requirements of Law conflict with the Code, the requirements of Law shall take precedence.*
- *An Actuary must be familiar with, and keep current with, not only the Code, but also applicable Law and rules of professional conduct for the jurisdictions in which the Actuary renders Actuarial Services.*



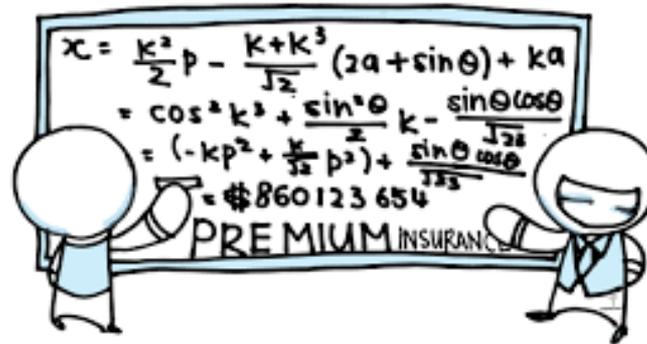
Where actuaries get support can be quite different -

- Large company actuaries often consult with a broad cadre of coworkers, professional colleagues, internal and outside legal counsel. Thus, create a culture of sharing information within your organization - connect the dots.
- Smaller company actuaries often have fewer options for internal discussions and less ability to hand-off the project to another actuary. Thus, often the small company actuary keeps current via Practice Notes, White Papers, Symposiums, Webinars and the like.



For another example, let's look at the Code's Precept 2 – How do you know if you are Qualified?

- **Precept 2** - *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 AAA's USQS provides guidance with Precept 2

- **Section 2** - The General Qualification Standard provides the basic education and experience requirements and continuing education requirements for most Statements of Actuarial Opinion (SAO).
- **Section 3** - The AAA's Board has determined that certain additional requirements must be met for NAIC Annual Statement SOA and has set additional Specific Qualification Standard for those SAO.



USQS 2.1 - Basic Education and Experience Requirement

- The sixth bullet point - *Have a minimum of three years of responsible actuarial experience in the area of actuarial practice relevant to the subject of the SAO under the review of an actuary who was qualified to issue the SAO at the time the review took place under standards in effect at that time.*

Often, this requirement has more practical difficulties for the small company actuary.



USQS 2.4 - SAO Issued by More than One Actuary

- *Both actuaries will be deemed to meet the General Qualification Standard if their collective basic education and experience and continuing education are sufficient as to all areas of actuarial practice relevant to the SAO, and if they are collectively qualified under Precept 2 of the Code of Professional Conduct to issue the particular SAO.*



Often, this tag-team approach is used by large company actuaries and has its own set application concerns and implementation issues.

USQS 4.2 - Changes in Application

- *An actuary practicing in an area of practice with a new application of actuarial science must maintain qualification through appropriate continuing education. If the area of practice of the new application is a new area of practice, the actuary must become qualified by meeting the basic education and experience requirement of the new area of practice as described in Section 4.1.*



It's not uncommon for small company actuaries to be asked to consider new products or lines of business.

USQS 6.1 - CE Recordkeeping Requirements

- *Actuaries who must satisfy the requirements of the General or Specific Qualification Standards should keep appropriate timely records as evidence that their continuing education requirements have been met.*

Although each individual must obtain their CE and maintain their own records, often collaboration among peers within a large company makes these tasks less daunting.



*I'll overnight the signed report,
but the documentation may have to go bulk rate.*

The Code's Precept 3 places responsibility on the actuary in regard to the work-product of his/her staff

- **Precept 3** - *An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.*

The small company actuary often directly knows the individual capabilities of each of his/her staff. Large company actuaries may have more layers underneath. Good management skills and effective communication are essential to meet Precept 3.



The AAA's Committee on Qualifications FAQ on USQS

- 40. *For in-house meeting time to count as an “organized activity,” an outside participant (from a different organization, not just an affiliate of your organization) must actively participate and be available for questions throughout the event (USQS Section 2.2.7).*

FAQ 40 is just an example; all of these FAQ are a good go-to resources for actuaries. Large companies often find it easier to arrange for an outside speaker to attend in-house meetings.



AAA's Applicability Guidelines



Applicability Guidelines for Actuarial Standards of Practice – Life

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Please note that the following ASOPs apply to all assignments in all practice areas:

[1. Introductory Actuarial Standard of Practice](#)

[23. Data Quality](#)

[41. Actuarial Communications](#)

While not “binding guidance,” this Excel file is very useful in suggesting what ASOPs might apply to specific tasks, broken down by practice area. In addition, they remind the actuary that there are three standards that apply to virtually all assignments:

- ASOP No. 1, the subject of my next slide.
- ASOP No. 23, Data Quality
- ASOP No. 41, Actuarial Communications

ASOP 1 - Introductory Actuarial Standard of Practice

Section 2.1 Terms of Construction:

- *“Must” as used in the ASOPs means that the ASB does not anticipate that the actuary will have any reasonable alternative but to follow a particular course of action.*
- *“Should” indicates what is normally the appropriate practice for an actuary to follow when rendering actuarial services.*
- *“May” as used in the ASOPs means that the course of action described is one that would be considered reasonable and appropriate in many circumstances.*



ASOP 41 - Actuarial Communications

- **Background Section** - *This standard offers guidance to complement the requirements imposed by the Code of Professional Conduct. It was drafted and is still intended to help actuaries apply the Code of Professional Conduct when making professional communications (by written, electronic, or oral means) to clients, employers, regulators, policyholders, plan participants, investors, and other users of actuarial services.*



ASOP 41 - Actuarial Communications

The form and substance of communications of our work often varies between small and large companies. How does our standard address this?

- **3.1.1 Form and Content** - *The actuary should take appropriate steps to ensure that the form and content of each actuarial communication are appropriate to the particular circumstances, taking into account the intended users.*



Committee on Professional Responsibility - 2005 Discussion Paper on Peer Review & 2012 Webinar

- Peer Review is a process where another professional (usually another actuary) reviews a report before it is delivered to the users.
- Peer Review is not required by the Code, any ASOP or USQS.
- However, Peer Review helps the actuary comply with the Code:

Precept 4 - *an Actuary who issues an Actuarial Communication shall take appropriate steps to ensure the Actuarial Communication is clear and appropriate to the circumstances and its intended audience and satisfies applicable standards of practice.*

Annotation 8-1 - *The Actuary...should therefore take reasonable steps to present the Actuarial Communications clearly and fairly....*

Committee on Professional Responsibility - 2005 Discussion Paper on Peer Review & 2012 Webinar

Because the potential peer reviewer should be: Objective (not be involved in the preparation of the work product), Independent, Qualified and Impartial, many small company actuaries have less opportunities.

However, I highly recommend Peer Review as an important step.



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Actuarial Board for Counseling and Discipline (ABCD)

Handled 145 cases in 2017

- 104 requests for guidance
 - 35 – Health, 28 – Pension, 24 – Property & Casualty, **13 – Life**, 4 – General
- 41 inquiries
 - 24 – Pension, **6 – Life**, 6 – Health, 5 – Property & Casualty

Requests for Guidance (RFG) make up a large portion of the ABCD activities

- Individual RFGs are kept confidential
- To date, the ABCD has not initiated an inquiry based on an RFG

Don't be afraid to ask for guidance early!

<http://www.abcdboard.org/wp-content/uploads/2018/03/2017annualreport.pdf>

Actuarial Standards of Practice (ASOPs)

Members of all U.S. actuarial organizations are bound by:

- Code of Professional Conduct
- Precept 3 of the Code of Professional Conduct: “An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.” (applicability guidance available on ASB website, <http://www.actuarialstandardsboard.org/applicability-guidelines/>)
- Actuarial candidates are subject to the Candidate Code of Conduct

ASOPs are developed by the Actuarial Standards Board – “Protecting You, Protecting Others”

- Identify what an actuary should consider, document, and disclose when performing an actuarial assignment⁴

New and Updated ASOPs⁵

- Exposure Drafts are distributed to members of all actuarial organizations
- After appropriate comment period, drafts may be amended
- Require approval of at least 2/3 of ASB for adoption

Where are they at today?

Notes taken from the February ASB Boxscore⁶

Pricing Life Insurance and Annuity Products

The task force is reviewing comments on the second exposure draft, making revisions, and plans to present a final ASOP to the ASB at its **June 2018** meeting.

Assumptions

The task force is reviewing comments on the exposure draft, making revisions, and plans to present a second exposure draft to the ASB at its **March 2018** meeting.

Modeling

The task force is reviewing comments on the third exposure draft, making revisions, and plans to present a fourth exposure draft to the ASB at its **June 2018** meeting.

Pricing of Life Insurance and Annuity Products

Proposed ASOP



Purpose – Proposed Pricing of Life Insurance and Annuity Products ASOP

Why create a new ASOP on pricing life insurance and annuity products?

- ❑ Provide guidance to actuaries when performing actuarial services with respect to pricing life insurance or annuity products, including riders
- ❑ Individual policy forms or group master contracts with individual certificates priced similar manner to individual life/annuity
- ❑ No specific life/annuity guidance exists

Existing Similar ASOPs



ASOP No. 29, *Expenses Provisions in Property/Casualty Ratemaking*



ASOP No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*



ASOP No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*

- ✓ *Released 2nd exposure draft June 2017*
- ✓ *Commentary period ended October 31, 2017*
- ✓ *Likely final release date is June 2018*

Slide provided courtesy of the SOA

Scope - Proposed Pricing of Life Insurance and Annuity Products ASOP

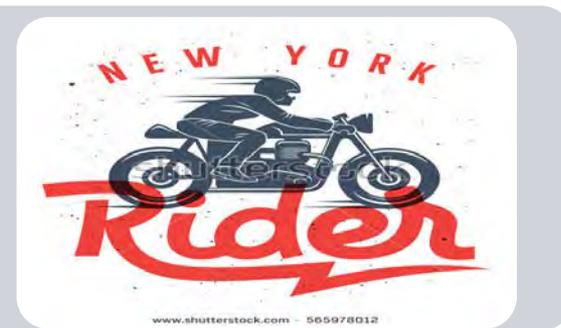
What does this apply to?



Life



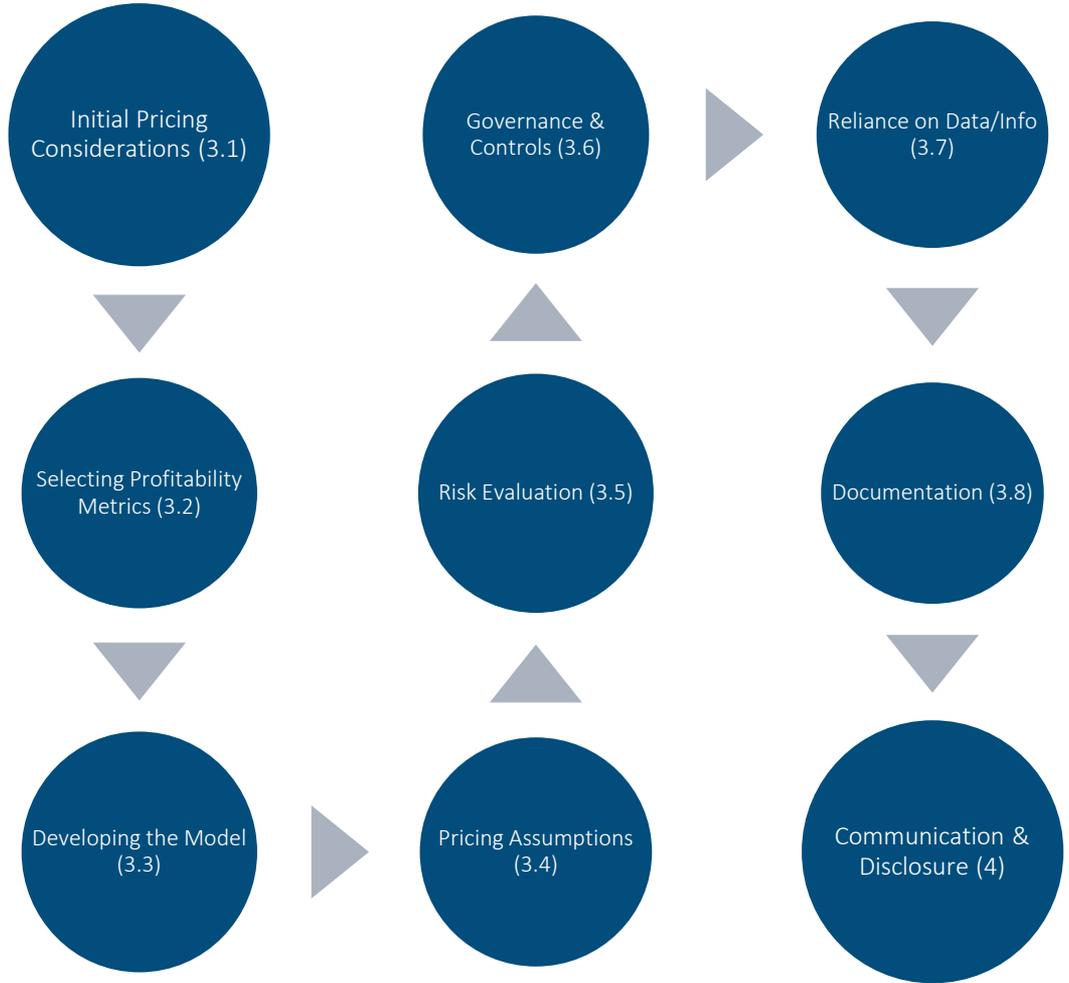
Annuity



Riders

- Pricing of life insurance and annuity products when a product is initially developed or when charges or benefits are changed for future sales.
- Evaluating the product's profitability and underlying risks and advising on the product's rates and benefits. Actuarial services may also include advising on the design of the product.

Slide provided courtesy of the SOA



Slide provided courtesy of the SOA

Assumptions

Proposed ASOP



Purpose – Proposed Assumptions ASOP

Why create a new ASOP on setting assumptions?

- Provide guidance to actuaries:
 - when performing actuarial services that include setting assumptions or
 - assessing the reasonableness of assumptions set by others
- Create a standard on assumption setting for ALL practice areas
- Supplement guidance that already exists

Existing Relevant ASOPs



ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*



ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*



ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*

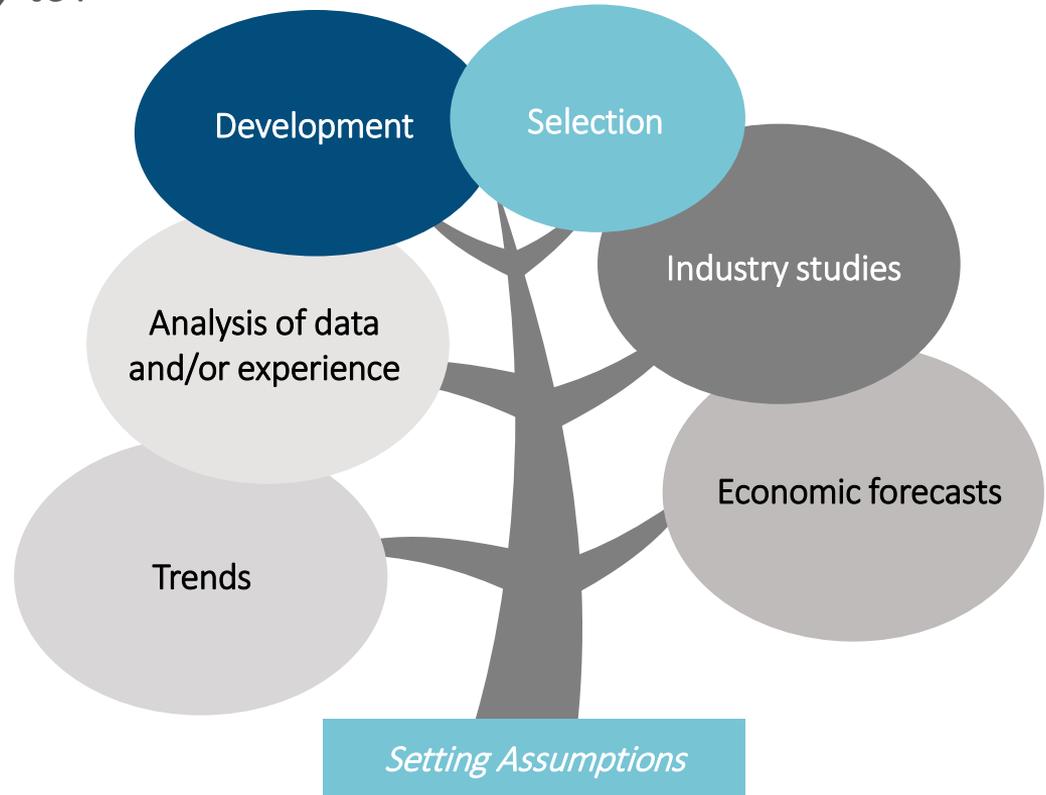
- ✓ *Initial exposure draft released December 2016*
- ✓ *Commentary period ended April 30, 2017*
- ✓ *Expected release date of 2nd draft is March 2018*

Slide provided courtesy of the SOA

Scope – Proposed Assumptions ASOP

What does this standard apply to?

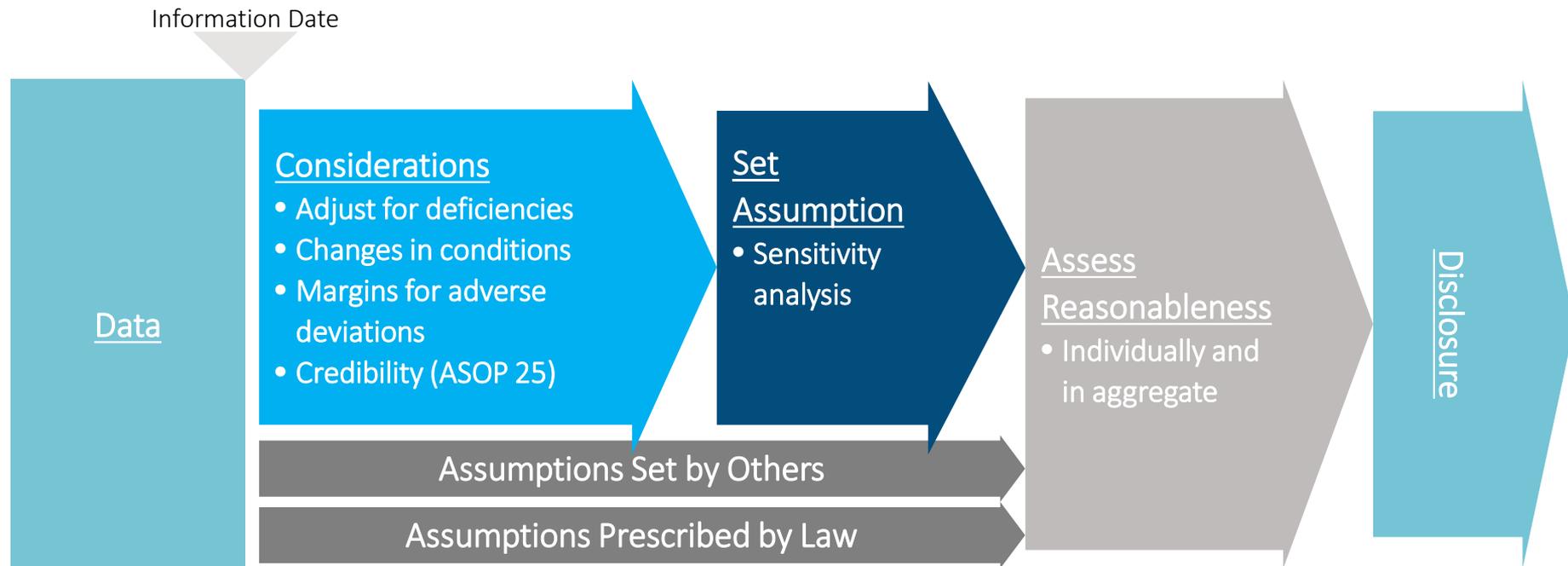
Includes assumption setting or assumption assessment for actuaries across all disciplines



Slide provided courtesy of the SOA

Proposed Assumptions ASOP

Assumption Setting Process



Slide provided courtesy of the SOA

Modeling Proposed ASOP



Purpose – Proposed Modeling ASOP

Why create a new ASOP on Modeling?

- ❑ Provide guidance to actuaries with modeling applications
- ❑ Create a standard on general modeling for ALL practice areas
- ❑ Supplement guidance that already exists
- ❑ This exposure draft 3 includes the following updates from prior exposure drafts:
 - Narrowed scope
 - Guidance is less subject to professional judgement
 - Several clarifications on guidance
 - Several clarifications on definitions

Existing Relevant ASOPs



ASOP No. 38, Using Models Outside the Actuary's Area of Expertise

- ✓ *ASB approved the third exposure draft in June 2016*
- ✓ *Commentary period ended October 31, 2016*
- ✓ *Expected release date of 4th draft is June 2018*

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Model Definition

How is a model defined in the new ASOP?



Model Definition

“A simplified representation of relationships among real world variables, entities, or events using statistical, financial, economic, mathematical, or scientific concepts and equations.”³



Model Components

1. Input – assumptions, parameters, and data
2. Processing – information generated based on inputs
3. Output – final results that drive business decisions

Model Uses



- Help describe a system
- Analyze effects of various components within a system
- Drive results and business decisions

Model Evolution



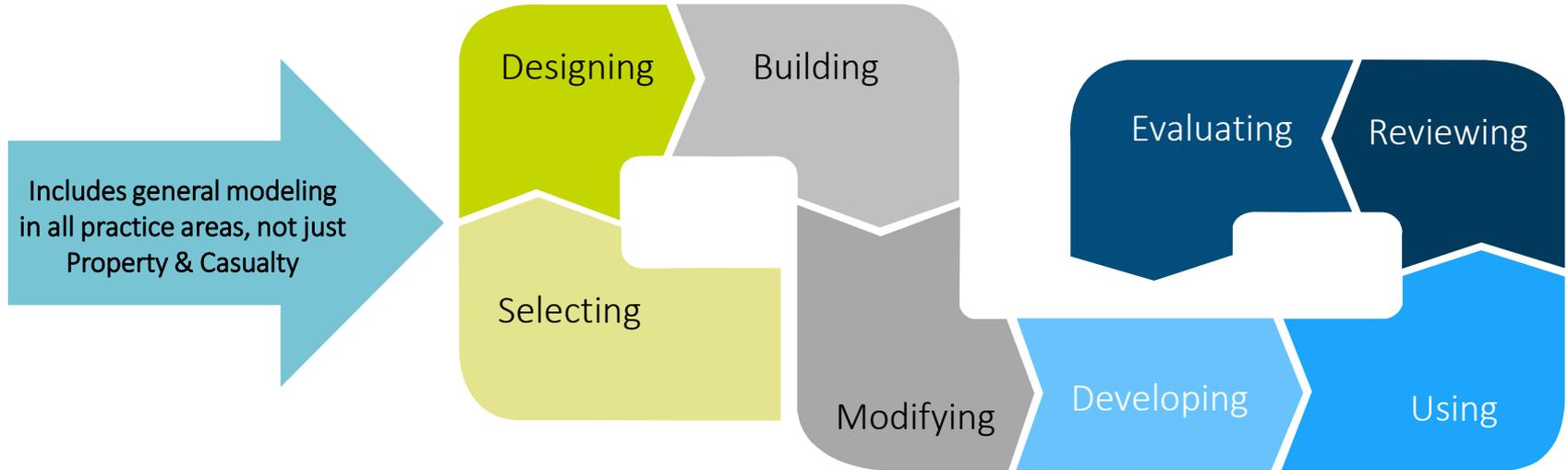
- Specification
- Implementation
- Production

³ Actuarial Standards Board, Third Exposure Draft, Proposed Actuarial Standard of Practice, Modeling

Slide provided courtesy of the SOA

Scope – Proposed Modeling ASOP

What does this standard apply to?



Models that are not **simple**

Simple models are defined to produce transparent results without a model run

Slide provided courtesy of the SOA

Comments from Third Exposure Draft

- 28 Comments Received
- Substantial comments received from CAS and the SOA
- Some concern with the overlap between Assumptions and Modeling drafts
- Although they had hoped to issue a final ASOP, based on the comments the current plan is to issue a fourth exposure draft later in 2018

Slide provided courtesy of the SOA