

American Academy of Actuaries
2007 Life & Health Qualification Seminar
November 5-8, 2007

Overview of Actuarial Professionalism

Karen Smith
Chairperson of Committee on Qualifications

November 2009



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Academy Mission

The Academy's mission is to serve the public on behalf of the United States actuarial profession. To accomplish this, the Academy:

- Provides independent and objective actuarial information, analysis, and education for the formation of sound public policy;
- Proactively identifies and addresses issues on behalf of the public in matters where actuarial science provides a unique understanding;
- Increases the public's understanding and recognition of the value of the actuarial profession;



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Academy Mission

(continued)

- Facilitates and coordinates issues of common interest among the U.S.-based actuarial associations;
- Provides for the establishment, maintenance, and enforcement of high professional standards of actuarial **qualification, practice, and conduct**; and
- Coordinates the representation of the U.S. profession globally.



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Actuarial Conduct



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Overview of the Code of Professional Conduct

- The revised Code took effect January 1, 2001 and was adopted by the five U.S.-based actuarial organizations (Academy, ASPPA, CAS, CCA, & SOA).
- The Code sets forth professional/ethical standards for actuarial members of the five U.S.-based actuarial organizations.
- Actuaries who commit material violations of the Code are subject to counseling or discipline as described herein.



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Overview of the Code of Professional Conduct

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- The Code contains 14 Precepts, along with annotations providing further guidance on adhering to the Precepts.
- The Precepts are the equivalent of standards that must be followed by practicing credentialed actuaries in the U.S.
- In the event that any Precept conflicts with applicable law, follow the law.



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Professional Integrity

Precept 1

- Act honestly, with integrity and competence, and in a manner that fulfills the profession's responsibility to the public and upholds its reputation, including:
 - Perform professional services with skill and care;
 - Refuse to provide professional services that would violate or evade the law, or damage the profession's reputation;



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Professional Integrity

(continued)

- Do not abuse professional relationships; and
- Do not engage in professional conduct that involves dishonesty, fraud, deceit, deception, or misrepresentation, or act in a way that will reflect adversely on the actuarial profession.



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Qualification Standards

Precept 2

- Perform professional services only when qualified to do so AND in compliance with applicable Qualification Standards:
 - Know and follow applicable Qualification Standards, which, in U.S., are published by the Academy.
 - Revised Qualification Standards became effective January 1, 2008 (discussed later).
 - The absence of a Qualification Standard in your jurisdiction does not relieve you of the duty to comply.



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Standards of Practice

Precept 3

- Make sure that work performed by you, or under your direction, meets applicable standards of practice:
 - Know and follow applicable standards, which, in the U.S., are the Actuarial Standards of Practice (ASOPs) promulgated by the Actuarial Standards Board.
 - When applying standards, use professional judgment.
 - Be prepared to disclose and justify deviations.



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Communications and Disclosure

Precept 4

- Take appropriate steps to ensure that communications are clear, appropriate to the circumstances and intended audience, and comply with ASOPs, as applicable:
 - Identify yourself as the person responsible for your communications;
 - Indicate your availability to provide supplemental information.



Communications and Disclosure (continued)

Precept 5

- As appropriate, identify your principal(s) and the capacity in which you serve.



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Communications and Disclosure (continued)

Precept 6

- Make timely disclosure to Principal of all known direct and indirect sources of compensation related to an assignment:
 - Disclose any relationships that are pertinent but may not be apparent;
 - This applies to all such compensation, wherever received within your firm.



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Conflict of Interest

Precept 7

- Do not knowingly provide professional services involving a real or potential conflict of interest unless:
 - Your ability to act fairly is unimpaired;
 - There has been disclosure of the conflict to all known affected Principals; and
 - Such Principals have expressly agreed to your performing the professional services.



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Control of Work Product

Precept 8

- Take reasonable steps to ensure that your services will not be used to mislead other parties:
 - Recognize the risk of misuse;
 - Present your work clearly and fairly;
 - Set appropriate limits on the use and distribution of your work.



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Confidentiality

Precept 9

- Do not disclose confidential information to another party unless authorized by the Principal or required to do so by law.



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Courtesy and Cooperation

Precept 10

- Perform services with courtesy and professional respect and cooperate with others in the Principal's interest:
 - You should discuss differences of opinion objectively and with courtesy and respect;
 - You may agree to represent, in the same matter, another actuary's current or former Principal;



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Courtesy and Cooperation (continued)

- You may issue an alternative opinion to one issued for a Principal by another actuary;
- You may wish to consult with a prior actuary - get the Principal's consent first;
- You should cooperate with an actuary who takes over a Principal's account, unless you have a pre-existing agreement with the Principal to the contrary.



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Advertising

Precept 11

- Do not engage in advertising or business solicitation that is false or misleading in any medium:
 - Includes any communication that may directly or indirectly influence a person's or organization's decision whether, and from whom, to obtain actuarial services.



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Titles and Designations

Precept 12

- Use membership titles and designations only as authorized by your organizations:
 - A "title" is a position (e.g., committee chairperson);
 - A "designation" is a class of membership (e.g., ASA, FSA, or MAAA).



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Violations of the Code

Precept 13

- An actuary who knows of an apparent, unresolved, material breach by another actuary should consider discussing the matter with the other actuary to obtain a resolution.
- Otherwise, report such behavior to the ABCD, unless prohibited by law or confidentiality agreement.



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Violations of the Code (continued)

- Pursuant to Annotation 13-1, material violations are those deemed to be important or to affect the outcome of a situation, as opposed to a violation that is trivial, does not affect an outcome, or is merely of form.



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Violations of the Code (continued)

Precept 14

- Respond promptly, truthfully, and fully in writing to the ABCD's request for information.
- Cooperate fully with an ABCD investigation, subject to applicable restrictions on confidential information, or those otherwise imposed by law.



Actuarial Practice



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Overview of Standards of Practice

- Description of the Actuarial Standards Board (ASB):
 - The ASB creates, revises, amends, and repeals, as necessary, Actuarial Standards of Practice that guide all actuaries practicing in the United States.
 - Composed of nine members of the actuarial profession, selected by the Academy's Selection Committee (CUSP).



Overview of Standards of Practice

(continued)

- CUSP is made up of the presidents and presidents-elect of the five U.S.-based actuarial organizations.
- ASB has members representing each traditional practice area.
- Each ASB member serves no more than two consecutive three-year terms.



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ASB Operating Committees

- ASB develops standards of practice via five primary operating committees:
 - General/Casualty/Health/Life/Pension;
 - Committee members are from different types of employment with expertise in the major markets and/or types of services provided within their practice area.



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Actuarial Standards of Practice

- ASOPs provide
 - Guidance to practicing U.S. actuaries when they provide actuarial services; and
 - Documentation of “then” current practice, often cited by legal counsel.
- Purpose of guidance is to give the intended users of the actuarial work product assurance as to its quality and suitability.
- “Intended users” are an important part of our audience.



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Drafting ASOPs

- The ASB drafts ASOPs to provide guidance.
- ASOPs are generally not prescriptive.
- The ASB generally avoids endorsing one method (or approach) over other competing methods unless there exists a wide consensus that one method is preferable to the others and is the only appropriate method.



Developing New ASOPs

- Proposals submitted to the ASB describe why a new ASOP is needed and what such ASOP would cover.
- Any person or group may submit a proposal.
- The ASB may approve and refer such proposal to an Operating Committee (which may request creation of Task Force).
- The ASB may decline to approve a proposal.



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Developing New ASOPs

(continued)

- A proposed exposure draft is reviewed by the ASB.
- If approved for exposure, the draft is distributed to the profession and other interested parties for comment (usually 60 days).
- Comments are posted on the ASB website for a period of time.
- The relevant Operating Committee and/or Task Force reviews comments and makes appropriate modifications.
- The ASB reviews and edits revised ASOPs.



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Developing New ASOPs

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- The ASB then decides to adopt or re-expose the draft depending on the materiality of the changes from the prior exposure draft.
- The ASOP generally becomes effective several months after adoption by the ASB.
- The process for repeal of an ASOP is similar (except repeal, after exposure and comment, is immediate).



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Conclusion on ASOPs

- ASOPs provide the actuary with an analytical framework for exercising professional judgment, identifying factors that the actuary typically should consider when faced with a particular type or aspect of professional service.
- Applicability Guidelines for ASOPs are a useful tool to help you find relevant ASOPs.
- To contact the ASB please go to:
<http://www.actuarialstandardsboard.org/>



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Actuarial Counseling and Discipline



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**Overview of the Actuarial Board for
Counseling and Discipline
(ABCD)**



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ABCD Background

The ABCD, which became effective January 1, 1992, was established to provide a single body in the United States:

- To investigate actuaries' compliance with the Code of Professional Conduct (including conduct, qualifications, and practice);
- To counsel actuaries in good professional practice;
- To mediate disputes between actuaries and others.



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Jurisdiction

The ABCD investigates cases (except in Canada) involving members of the following:

- The American Academy of Actuaries
- The American Society of Pension Professionals and Actuaries
- The Canadian Institute of Actuaries (in the U.S.)
- The Casualty Actuarial Society
- The Conference of Consulting Actuaries
- The Society of Actuaries



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Composition of the ABCD

- The ABCD is composed of nine persons representing the four traditional practice areas.
- Each ABCD member is appointed to a three-year term, with terms staggered such that one-third of the board may be appointed each year.
- No ABCD board member is permitted to serve more than two consecutive terms.



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The Investigative Process

- The ABCD learns of alleged Code violations by (a) a complainant; (b) receipt of information; or (c) other means such as newspaper articles, etc.
- The complainant need not be an actuary and may provide documents for use in any investigation.
- Any person or group may contact the ABCD to allege a complaint against an actuary under the jurisdiction of the ABCD.
- The ABCD maintains the confidentiality of any investigation, or counseling, except for disclosures described in the Rules of Procedure for the ABCD.



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The Investigative Process

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- The ABCD sends the complaint to the actuary being investigated (the “subject actuary”) and asks him or her to submit a preliminary response.
- The ABCD Chairperson and Vice Chairpersons preliminarily review the matter and decide to (a) dismiss the case (with or without guidance); (b) investigate further; or (c) refer the case for mediation.
- If they decide to investigate further, the board notifies the subject actuary and appoints an investigator to review the matter further.



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The Investigator's Tasks

- The subject actuary is given the investigator's name and offered an opportunity to object to such investigator for good cause: otherwise, the investigator:
 - Contacts the complainant, the subject actuary, and any other necessary persons;
 - Gathers documents and data related to the allegations;
 - Writes a report of the facts and circumstances surrounding the matter for the ABCD to review.

- The subject actuary is provided with the investigator's report and given the opportunity to reply in writing to the ABCD if desired.



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ABCD Response to Investigator's Report

Upon review of the investigator's report and the subject actuary's response, the ABCD may decide to do any of the following:

- Obtain additional information;
- Dismiss the case;
- Confidentially counsel the subject actuary; or
- Schedule an investigative hearing (if there appears to be a breach that warrants a hearing).



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The Investigative Hearing

- The investigative hearing is not a criminal trial and does not have formal rules of evidence.
- At the hearing the subject actuary has the right to:
 - Appear and speak directly to the ABCD;
 - Have counsel present for advice;
 - Question the investigator and/or any other witnesses;
 - Submit documentation to the ABCD to support his or her case.



The Investigative Hearing

(continued)

- After the hearing, the ABCD decides whether to (a) request additional information; (b) dismiss the case; (c) confidentially counsel the subject actuary; or (d) recommend the subject actuary be disciplined.
- The ABCD does not impose any discipline on actuaries; when it believes discipline is warranted, it recommends a course of discipline to the subject actuary's membership organization(s) and each organization determines whether to follow the ABCD recommendation, impose some other discipline, or disregard the ABCD's discipline recommendation.
- Disciplinary recommendations may include public or private reprimand, suspension or expulsion from membership (i.e. losing one's actuarial credentials).



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Requests for Guidance

- Actuaries seeking guidance on an actuarial matter that he or she believes may affect his or her obligations under the Code, may contact the ABCD for a confidential “Request for Guidance” by using a link on the ABCD website, or telephoning or emailing the ABCD staff liaison, contacting any member of the ABCD, or writing a letter to the ABCD office.
- An individual member of the ABCD or the whole ABCD may respond to the inquiry with confidential advice on good professional practice.
- Requests for Guidance are not a substitute for peer review.



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Requests for Mediation

- Actuaries sometimes get involved in disputes with clients, employers, or other actuaries.
- If all parties are agreeable, the ABCD is available to mediate these disputes on a confidential basis.
- While mediation cases are rare, please keep in mind that the ABCD may be an inexpensive and confidential way to resolve disputes.
- To contact the ABCD, please go to:
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