

Professionalism in the Everyday Life of the Actuary

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Amanda Hamala, USAA
Nicholas Beyer, USAA



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*Better keep yourself clean and bright;
you are the window through which
you must see the world.*

George Bernard Shaw (1856 – 1950)



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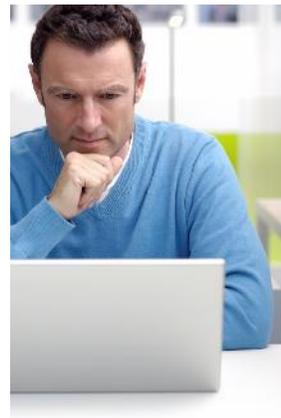
Agenda for Today

- Code of Conduct refresher course
- Communication
- Reliance on Data
- Disclosure of Risk
- Case Studies



Resources available to actuaries

- Code of Professional Conduct
- Regulations
- Qualification standards
- Actuarial Standards of Practice
- ABCD
- Peers
- Common sense
- Other support networks



Links

Code of Professional Conduct

http://www.actuary.org/pdf/prof/code_of_conduct.pdf

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

<http://www.actuary.org/qualstandards/qual.pdf>

ASOP Applicability Guidelines

<http://www.actuary.org/pdf/prof/guide.pdf>

SOA Continuing Professional Development Requirement

<http://www.soa.org/professional-development/cpd-requirement/default.aspx>



Code of Conduct – Common Sense Ethics



Pop Quiz

- Which actuarial organization(s) adopted the Code of Professional Conduct?
 - A. AAA
 - B. SOA
 - C. CCA
 - D. ASPPA
 - E. CAS
 - F. All of the above
 - G. A and B
 - H. A, B and E



Pop Quiz

- Which actuarial organization(s) adopted the Code of Professional Conduct?
 - F. All of the above



Precept 1: Professional Integrity

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- Be honest
- Use Skill and Care
 - Don't be deceitful or intentionally misrepresent
- Don't do anything illegal, or that would hurt the profession's reputation
 - Includes using 3rd party relationships to engage in improper activity



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Precept 2: Qualification Standards

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- Make sure you're qualified
 - Basic education
 - Experience
 - Continuing education
- Must be qualified even if qualification standards for a particular assignment do not exist



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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



Precept 13 and 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



Precept 13 and 14: Violations of the Code

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- 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/>



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ASOP No. 41



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41: Some new, and old, definitions

- Actuarial Communication
- Actuarial Document – **new** – recorded form of a communication
- Actuarial Finding
- Actuarial Report – **new definition** of old concept
- Actuarial Services
- Intended User – **sort of new**
- Oral Communication – **new**



41: Requirements for Actuarial Communications

- Form and content – appropriate to the circumstances
- Clarity – uses appropriate language, takes into account intended users
- Timing – reasonable, considers needs of intended users
- Identification of responsible actuary



41: Actuarial Report

- Should be completed if the actuary intends the findings to be relied upon by any intended user
 - One or several documents, could be different formats
- Report contents:
 - Actuarial findings
 - Methods, procedures, assumptions and data
 - Another actuary can make a reasonableness appraisal
 - Specific circumstances
 - Can limit content, but be prepared to identify circumstances and justify limiting the content.



Good communication is as stimulating as black coffee and just as hard to sleep after.

Anne Morrow Lindbergh (1906-2001)



41: All communications should disclose

- Identification of Responsible Actuary
- Identification of Actuarial Documents
- Disclosure in actuarial reports:
 - Intended users, scope and intended purpose
 - Acknowledgment of qualification
 - Limitations or constraints on the findings
 - Documents comprising the actuarial report
 - Assumptions or methods prescribed by law
 - Other disclosures – see next slide
- Deviation from the guidance of an ASOP



41: Additional Disclosures for a Report (Section 3)

- Uncertainty or Risk
- Conflict of Interest
- Reliance on Other Sources
- Responsibility for assumptions and methods – next slide
- Information Date of Report (data)
- Subsequent Events -- disclose if:
 - Becomes known after the information date, but before the report is issued
 - Material effect if reflected in findings, AND
 - Impractical to revise the report



41: Assumption/method specified by law/another party

Three choices for disclosure

1. No disclosure if it does not conflict with your judgment
2. Must disclose following if it significantly conflicts with your judgment
 - Assumption or method set by another party
 - The party who set it
 - The reason they set it and not you
 - It conflicts with your judgment or you are unable to judge
3. Must disclose per #2 if you are unable to judge the reasonableness



41: Other requirements

- Explanation of material differences
- Oral communications
- Responsibility to other users
- Retention of other materials



Even he, to whom most things that most people would think were pretty smart were pretty dumb, thought it was pretty smart.

Douglas Noel Adams (1952 - 2001)



Reliance on Data



It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts.

Arthur Conan Doyle (1859 – 1930)



ASOP 23: Data Quality

- Data quality is a significant driver in the quality of actuarial analyses
- ASOP 23 provides guidance:
 - Selection of data
 - Reliance on data and information supplied by others
 - Review of data
 - Limitations of the actuary's responsibility
 - Use of data
 - Documentation and
 - Communications and disclosures



23: Selection of data (3.2)

- Desired data elements, and possible alternatives
- **Appropriateness** including currency
- Reasonableness, **comprehensiveness**, and internal/external consistency
- Material limitations
- Alternative data/data sources: cost and feasibility, benefit gained
- Sampling methods



23: Review of Data (3.5)

- Know data definitions
- Identify questionable values and inconsistent relationships
- Review in light of prior data



23: Use of data (3.7)

Sufficient quality for analysis 😊😊😊



Require enhancement 😊😐



Can make assumptions or adjustments 😐



Material defects: what verification was done? 😐😐



Data too inadequate for use 😐😐😐



23: Documentation & Disclosure (esp 3.8, 4.1)

- Very specific
 - Basically, you should document and disclose anything resulting from the selection, review or use of the data that could impact the results
 - General rule: If you are uncomfortable disclosing it, then you should probably reconsider your data or analysis!



Brief note on risk management ASOPs



NEW ASOPs under construction

- Exposure draft: ERM Risk Evaluation
 - comment period ended June 30, 2012
- Exposure draft: ERM Risk Treatment
 - comment period ended September 10, 2012
- Discussion draft: Risk Disclosure for Pensions
 - comment period ended September 30, 2012



ERM Risk Evaluation

- Risk Evaluation in Enterprise Risk Management
- Limited to ERM projects
- Covers
 - Considerations for risk evaluation models
 - Economic capital
 - Stress & scenario testing
 - Emerging risks
 - Other risk evaluations



ERM Risk Treatment

- Risk Treatment in Enterprise Risk Management
- Limited to ERM projects
- Includes
 - Choosing risk appetites
 - Determining risk tolerance
 - Setting risk limits
 - Risk mitigation activities



Risk Disclosure for Pensions

- Assessment and Disclosure of Risk Associated with Pension Obligations, Plan Costs, and Plan Contributions
- Broad scope: any measurement of obligations, costs or contributions, benefit design or any projections
- Risks to be evaluated
 - Investment risk
 - Asset/liability mismatch risk
 - Interest rate risk
 - Longevity risk
 - Other significant risks



Case Studies



The winning loss ratio

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Haley's team of actuaries has a short turnaround to submit loss ratio results for its Eastern-upper-West-Midwest Region, needed by the region's marketing manager.

Her team uses excellent teamwork to get the right data, crunch the numbers, and have results peer reviewed within the deadline.

The results show a favorable loss ratio for that market.



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The winning loss ratio

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Since the marketing manager is waiting on the results, Haley does not want to waste time with a full report, and instead sends the following concise and efficient email to the marketing manager:

“Per your request and our discussion, the loss ratio for the most recent reporting period is 54%. Please let me know if you need additional information.”



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The winning loss ratio

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The regional marketing manager forwards this email to his boss, the Marketing Director, who forwards it to her boss, the Chief Marketing Officer, who forwards it to the CFO with the following email:

“Wow, great company-wide results! Should we send a special communication to the Board of Directors this evening, or wait until tomorrow morning?”



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The winning loss ratio

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- a) What were Haley’s key mistakes?
- b) In hindsight, how would you have rewritten Haley’s email?

“Per your request and our discussion, the loss ratio for the most recent reporting period is 54%. Please let me know if you need additional information.”

- c) Would you have done anything else differently?



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The Replacement Actuary

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A self-employed consulting actuary, Jennifer, bid on a project to update the rates and reserves for an insurance company's credit life insurance products.

Jennifer began her actuarial career twenty years ago at a credit life and credit disability company. Since she left the company fifteen years ago she has specialized in pricing annuity products, both at a life insurance company and as a self-employed consultant.



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The Replacement Actuary

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The project turns out to take more time than she anticipated and she decides not ask another consulting actuary to review her work before sending the final rates and reserves to the company. She is very confident in the quality and accuracy of her work product.



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The Replacement Actuary

After she submits a summary memorandum with rates and reserves, the company asks for copies of all her documentation, including any software files. She knows that it will take several days to organize and back fill the documentation. The project agreement letter only specified the deliverable as a memorandum with rates and reserves. She does not respond to their request.



The Replacement Actuary

- a) How should Jennifer decide if she is qualified to do the project?
- b) Is Jennifer obligated to seek peer review on the project?
- c) What obligation does Jennifer have to provide additional documentation?



The slings and arrows of good data

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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.



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The slings and arrows of good data

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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.



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The slings and arrows of good data

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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.



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The slings and arrows of good data

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- a) What is the actuary's responsibility with regard to the review of data?
- b) Can Sylvie rely on the divisions and providers to supply accurate data?
- c) How should Sylvie respond to the Chief Actuary's (and CFO's) interest in curtailing her data review?



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