

PROFESSIONALISM AND SELECTED ASOP TOPICS

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AMERICAN ACADEMY *of* ACTUARIES

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The Middle Atlantic Actuarial Club—November 16, 2021

Disclaimer

Please note: My statements and opinions are my own and do not necessarily represent the official statements or opinions of the Actuarial Board for Counseling and Discipline, the Actuarial Standards Board, any boards or committees of the American Academy of Actuaries, or any other actuarial organization, nor do they express the opinions of my employer.



Agenda

- ASB and ASOP Basics
- Actuarial Standards of Practice
- Selected ASOP Topics
- Academy Resources



Web of Professionalism: Basis of Self-Regulation



- ❑ The Code of Professional Conduct
- ❑ U.S. Qualification Standards (USQS)
- ❑ Actuarial standards of practice (ASOPs)
- ❑ Counseling and discipline (ABCD)



ASB Basics

- The ASB is established in and by Article XI of the bylaws of the American Academy of Actuaries.
- The ASB is legally a part of the Academy.
- The ASB has been delegated the authority to promulgate standards for the profession through the Academy bylaws.
- The ASB is the only body that can promulgate standards. ASB committees are established by the ASB to assist it in its work.



Actuarial Standards Board

Members selected by the Selection Committee, which consists of the president and president-elect of three U.S. actuarial organizations

- ▣ 9 members
- ▣ Composition by specialties
- ▣ 3-year term, maximum 2 terms

Chairperson and two vice chairpersons

- ▣ Selected by the Selection Committee
- ▣ 1-year term, maximum 2 terms



ASB members play a standard-setting role, not an advocacy role, and serve the profession rather than any individual interest groups or coalitions



Current ASB Members

- Chairperson—Darrell Knapp (Health)
- Vice Chairperson—Kathy Riley* (Pension)
- Vice Chairperson—Rob Damler (Health)
- Liz Brill (Life)
- Kevin Dyke (Casualty)
- Dave Neve (ERM)
- Cande Olsen* (Life)
- Judy Stromback (Pension)
- Pat Woods (Casualty)



ASB Committees

Committees

- ▣ General
- ▣ Casualty
- ▣ Enterprise Risk Management
- ▣ Health
- ▣ Life
- ▣ Pension



ASB Subcommittees and Task Forces

Subcommittees and Task Forces

- A subcommittee is generally established to address a particular area of responsibility. A subcommittee is generally maintained on an ongoing basis.
- A task force is generally established to address a particular issue, such as drafting an ASOP or monitoring an emerging area of practice. A task force is dissolved after completing its task.



Purpose of ASOPs

ASOPs Identify What Should Be

Considered

Done

Documented

Disclosed

When Rendering Actuarial Services



Philosophy of ASOPs

- Provide guidance for appropriate practice, not merely codify current practice or best practice
- Are principle-based; are not prescriptive, unless required by law or regulation; and do not replace professional judgment
- Are flexible enough to allow for ranges of “appropriate practice” and evolving practice
- Provide guidance, rather than educational material
- Include a focus on disclosure, which is the cornerstone of demonstrating compliance with standards



Philosophy of ASOPs *continued*

- ❑ Cannot cover all circumstances, so alternatives are permissible as long as the reason is disclosed and justifiable
- ❑ Should satisfy regulators and others that the profession can be relied on to follow appropriate actuarial practice, so that legislatures and regulators do not have to set actuarial standards
- ❑ Cannot fill a legislative void
- ❑ Apply to all actuaries falling within their scope, not just the most senior or “issuing” actuary
- ❑ Cannot guarantee good work



ASOP Level of Prescription

General thoughts (“*What ASOPs Can and Cannot Do*”):

- Standards have to be flexible enough to allow for different and changing conditions
- Standards are principle-based and need to provide enough guidance for an actuary to use professional judgment
- Standards cannot run afoul of restraint of trade laws
- Where requirements of law conflict, the law governs



ASOP Level of Prescription

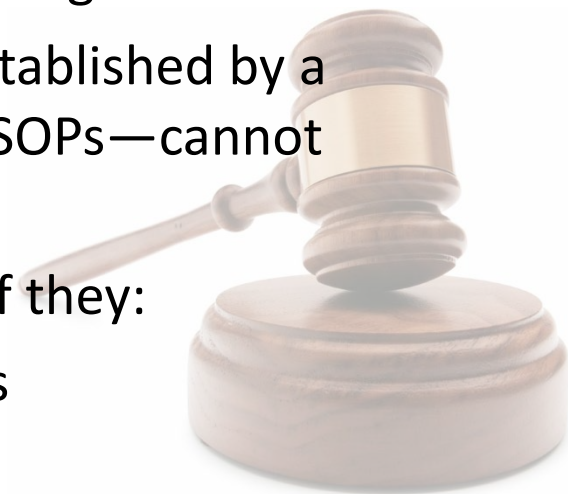
Other considerations

- ▣ Perception of the profession and those outside the profession
- ▣ Ranges of “appropriate practice”
- ▣ Flexibility over time to accommodate evolving practice



Legal Limits Antitrust Concerns

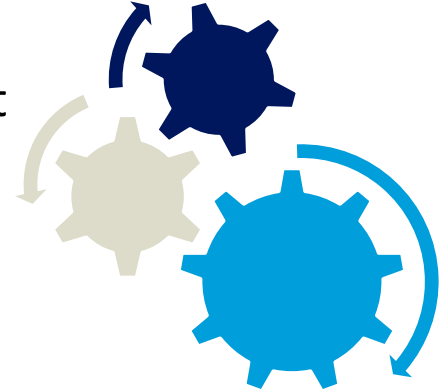
- The ASB is the U.S. actuarial profession's standard-setting body. ASOPs do not have the force or effect of law or regulation.
- Private standard-setting bodies—e.g., those established by a profession for its own members, such as the ASOPs—cannot impose unreasonable constraints.
- Constraints may be reasonable and allowable if they:
 - Establish appropriate professional standards
 - Serve the public



ASOP Process

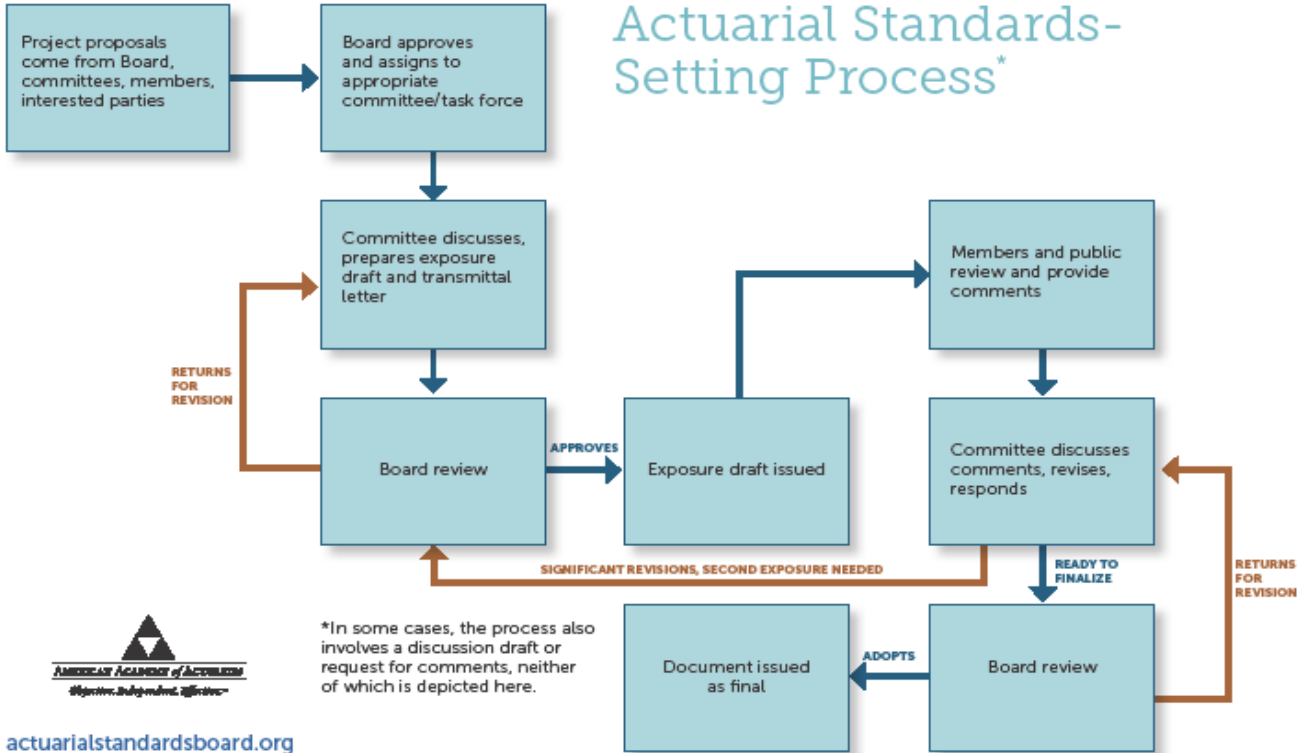
When creating or revising an ASOP, the ASB:

- ❑ Follows its published and rigorous notice and comment procedures throughout the development of the ASOP
- ❑ Reviews and evaluates current and emerging practices
- ❑ Determines appropriate guidance
- ❑ Publishes an exposure draft to obtain input from actuaries (members) and other interested parties (public) and considers all comments received
- ❑ Publishes a final standard or another exposure draft





Actuarial Standards-Setting Process*



*In some cases, the process also involves a discussion draft or request for comments, neither of which is depicted here.

Note: Legal review occurs before all drafts are approved for exposure or adopted as final ASOPs by the ASB.



Differences between ASOPs and Practice Notes

ASOPs	Practice Notes
Published by the ASB	Issued by a specific committee of the Academy
Provide guidance that is binding on actuaries	Do not provide binding guidance; do not interpret ASOPs
Identify what the actuary “should” do, consider, document, and disclose when performing an actuarial assignment.	Outline current alternatives in practice in a specific area: “Some actuaries do this; others do that”
Provide guidance for <u>appropriate</u> practice, not merely codify current practice or best practice	Outline alternatives in practice, without advocating one practice over another. Not meant to be a codification of generally accepted actuarial practice.
Do not provide educational material	May provide educational material
Are principles-based; are not prescriptive, unless required by law or regulation	Are not principles-based; may be very detailed



Actuarial Standards of Practice



Actuarial Standards of Practice

- The ASB sets standards for appropriate actuarial practice in the United States
- These ASOPs *describe the procedures* an actuary should follow when performing actuarial services...
- ...and identify *what the actuary should disclose* when communicating the results of those services



Soon-to-Be-Effective ASOPs

Revision of Actuarial Standard of Practice No. 38, now titled *Catastrophe Modeling (for All Practice Areas)* (Effective for work performed on or after Dec. 1, 2021)



Soon-to-Be-Effective ASOPs

Revision of ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities and Assets* (Effective for work performed involving SAOs regarding health insurance assets and liabilities issued on or after July 1, 2022)



Soon-to-Be-Effective ASOPs

Revision of ASOP No. 11, now titled *Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports* (Effective for financial reports issued on or after Dec. 1, 2022)



Current Exposure Drafts

- No open exposure drafts as of November 12, 2021
- December ASB meeting will be reviewing several potential exposures, so stay tuned!



Recent Exposure Drafts

- Proposed Revision of ASOP No. 24, [Compliance with the NAIC Life Insurance Illustrations Model Regulation](#) (Exposure Draft), comment deadline: Sept. 30, 2021
- Proposed Revision of ASOP No. 18, [Long-Term Care](#) (Exposure Draft), comment deadline: Sept. 1, 2021
- [Setting Assumptions](#) (Third Exposure Draft), comment deadline: April 15, 2021
- Proposed Revision of ASOP No. 3, [Continuing Care Retirement Communities and At Home Programs](#) (Exposure Draft), comment deadline: Feb. 1, 2021



Recent Exposure Drafts

- Proposed Revision of ASOP No. 22, *Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserve and Other Liabilities* (Second Exposure Draft), comment deadline: Nov. 30, 2020
- Proposed Revision of ASOP No. 2, now titled *Nonguaranteed Elements for Life Insurance and Annuity Products* (Second Exposure Draft), comment deadline: Nov. 13, 2020



Proposals Recently Approved by ASB

- Update to ASOP No. 7, *Analysis of Life, Health, or Property/Casualty Insurer Cash Flows*
- Update to ASOP No. 12, *Risk Classification*
- Update to ASOP No. 41, *Actuarial Communications*
- Update to ASOP No. 45, *The Use of Health Status Based Risk Adjustment Methodologies*




Proposals Recently Approved by ASB

- Update to ERM ASOP Nos. 46 and 47
- Development of New ASOP on Life and Health Reinsurance Pricing



Boxscore: ASB Quarterly Newsletter



The screenshot shows the cover and first two articles of the ASB Boxscore newsletter. The cover is dark blue with the ASB logo and the text 'ACTUARIAL STANDARDS BOARD'. Below the logo, it says 'Welcome to the Actuarial Standards Board's quarterly newsletter. Boxscore highlights and reports on the ASB's work in developing, updating, and promulgating actuarial standards of practice in the United States. Each issue provides information on ASB's current and upcoming projects, events, and recently completed projects.' The date 'September 2018' and the title 'BOXSCORE' are prominently displayed. The first article is titled 'ASB Adopts New ASOP No. 54' and discusses the adoption of a new Actuarial Standard of Practice (ASOP) No. 54, 'Pricing of Life Insurance and Annuity Products'. The second article is titled 'ASOP Adopts Revision of ASOP No. 17' and discusses a revision to ASOP No. 17, 'Expert Testimony by Actuaries'.

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ASB ACTUARIAL STANDARDS BOARD

Welcome to the Actuarial Standards Board's quarterly newsletter. Boxscore highlights and reports on the ASB's work in developing, updating, and promulgating actuarial standards of practice in the United States. Each issue provides information on ASB's current and upcoming projects, events, and recently completed projects.

September 2018

BOXSCORE

ASB Adopts New ASOP No. 54

The Actuarial Standards Board (ASB) recently adopted new Actuarial Standard of Practice (ASOP) No. 54, *Pricing of Life Insurance and Annuity Products*. ASOP No. 54 applies to actuaries when performing actuarial services with respect to the pricing of life insurance and annuity products when a product is initially developed or when charges or benefits are changed for future sales. The standard does not apply to any changes made on in-force policies. A first exposure draft was issued in March 2016, for which 17 comment letters were received. The ASB approved a second exposure draft in June 2017, for which six comment letters were received. Comments from both exposure drafts were considered in making changes reflected in the final ASOP. The standard will be effective for any actuarial services performed on or after Dec. 1, 2018. ASOP No. 54 can be viewed [here](#).

ASOP Adopts Revision of ASOP No. 17

The ASB adopted a new revision of ASOP No. 17, *Expert Testimony by Actuaries*. The revision of ASOP No. 17 applies to actuaries who are qualified as experts under the evidentiary rules applicable in a forum when they provide testimony in court hearings, dispute resolutions, depositions, rate hearings, legislative hearings, or other similar proceedings. The exposure draft was issued in April 2017, and 11 comment letters were received and considered in making changes that are reflected in the final ASOP. Notable changes to the revision include rewording section 1.2, Scope, to provide additional guidance regarding the circumstances under which the standard applies and clarifying the definition of "expert." The standard will be effective for all expert testimony provided by the actuary on or after Dec. 1, 2018. ASOP No. 17 can be viewed [here](#).

WWW.ACTUARIALSTANDARDSBOARD.ORG

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- Announcements of
 - ▣ Exposure drafts
 - ▣ Final standards
- Status of ASOPs under revision
- Meeting dates
- Other ASB news



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Determining Which ASOPs Apply

- Actuaries are responsible for determining which ASOPs apply to the task at hand.
- If no ASOPs specific to the task are applicable, the actuary may, but is not required to, consider:
 - ▣ The guidance in related ASOPs or exposure drafts
 - ▣ Actuarial literature, including practice notes
- Applicability Guidelines developed by the Council on Professionalism to *assist* actuaries to determine which ASOPs *might* apply, based on the type of work.



Applicability Guidelines For Life ASOPs

 Applicability Guidelines for Actuarial Standards of Practice – Life <small>Objective. Independent. Effective.™</small>	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																											
	© 2020 American Academy of Actuaries. Last updated July 2020.																											
Description of Assignment	Actuarial Standard of Practice (ASOP)																											
	2	4	5	6	7	10	11	12	15	17	18	19	21	22	24	25	33	37	40	42	46	47	48	52	54	55	56	
1.0 Appraisals																												
1.0.1 Estimate value of insurance company, insurance marketing organization, or block of insurance contracts	2		5		7		11	12	15		18	19				25				40	42			52		55	56	
2.0 Enterprise Risk Management/Own Risk and Solvency Assessment																												
2.0.1 Develop the ORSA, performing the modeling, and writing the					7		11	12			18		21							46	47					55	56	
2.0.2 Conduct ERM activities, including but not limited to setting risk tolerances and measuring risk/return tradeoffs					7		11	12			18									46	47			54	55	56		
3.0 Experience Studies and Development of Related Assumptions																												
3.0.1 Perform experience studies	2		5	6					15		18										42		48				56	
3.0.2 Use experience study results in the development and review of actuarial assumptions used in financial projections, pricing, and determining reserves	2		5	6	7	10			12	15		18		21	22	24	25	33	37		40	42		48	52	54		
4.0 Expert Advice, Witness, and/or Testimony																												
4.0.1 Provide expert witness testimony in connection with actuarially related matters	17 Note that any standards relating to the subject on which the actuary is providing expert advice would also apply.																											
5.0 Financial Analysis, Projection, and Reporting																												
5.1 Financial Analysis and Projections																												
5.1.1 Perform profitability analysis/projections, including projections of capital, group capital, and development of	2		5		7	10	11	12	15		18					25				40	42			52	54	55	56	
5.1.2 Compute economic capital			5		7		11	12								25					42					55	56	
5.1.3 Perform embedded value or market consistent embedded value calculations			5		7	10	11	12			18	19				25				40	42			52			56	
5.1.4 Perform projections in support of corporate forecasts (premiums, fees, policy benefits, expenses) as may be needed for ORSA or other reporting, in addition to statutory, GAAP, or IFRS reporting.					7										25					46	47				55	56		
5.2 GAAP Reporting																												
5.2.1 Account for reinsurance transactions			5		7	10	11	12			18		21			25					42						56	
5.2.2 Determine policy benefit liabilities, deferred acquisition cost assets, and other actuarial items for life insurance companies' financial statements			5		7	10	11	12			18		21			25				42		48					56	

Discussion of Selected ASOPs



Reliance in ASOPs—Overview

- ASOP No. 1, *Introductory Actuarial Standard of Practice*
- ASOP No. 41, *Actuarial Communications*
- ASOP No. 23, *Data Quality*



ASOP No. 1, *Introductory Actuarial Standard of Practice*

Section 2.11, Reliance

- Actuaries frequently rely upon others for information and professional judgments that are pertinent to an assignment.
- Similarly, actuaries often rely upon others to perform some component of an actuarial analysis.
- Accordingly, some ASOPs permit the actuary to rely in good faith upon such individuals, subject to appropriate disclosure of such reliance.



ASOP No. 23, *Data Quality*

- This ASOP provides guidance to actuaries when selecting data, performing a review of data, using data, or relying on data supplied by others, in performing actuarial services.
- This standard does not require the actuary to perform an audit of the data.



ASOP No. 23—Reliance on Data Supplied by Others

Sections 3.5 and 4.1

- The accuracy and completeness of data supplied by others are the responsibility of those who supply the data.
- The actuary may rely on data supplied by others, subject to:
 - A review of the data, if practical, or a disclosure that a review has not been performed
 - Disclosure of any unresolved questionable data values that could have a significant effect on the analysis
 - Disclosure of any adjustments to data or assumptions
 - Disclosure of potential existence of uncertainty or bias in the results using such data
- The actuary should disclose the extent of such reliance.



ASOP No. 41, *Actuarial Communications*

- An actuarial communication is a written, electronic, or oral communication issued by an actuary with respect to actuarial services.
- An actuarial report is a set of documents that the actuary determines to be relevant to specific actuarial findings that is available to the intended user.
- The actuary should complete an actuarial report if the actuary intends the actuarial findings to be relied upon by any intended user.



ASOP No. 41—Reliance on Other Sources for Data and Other Information

Section 3.4.3, Reliance on Other Sources for Data and Other Information

- An actuary who makes an actuarial communication assumes responsibility for it, except to the extent the actuary disclaims responsibility by stating reliance on other sources.
- Reliance on other sources for data and other information means making use of those sources without assuming responsibility for them.



Documentation

Documentation—

- The actuary *should consider* preparing and retaining documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4.
 - Note: Some ASOPs indicate that “the actuary *should* prepare and retain documentation.” The preparation and retention of documentation then becomes required.
- *When preparing documentation*, the actuary *should prepare* documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary’s work or could assume the assignment if necessary.



Documentation

Documentation (continued)—

- The degree of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services.
- In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

Documentation section may be found as the final guidance in section 3 of an ASOP.



Disclosure

X.X Required Disclosures in an Actuarial Report—When issuing an actuarial report to which this standard applies, the actuary should refer to ASOP No. 23, *Data Quality*, and ASOP No. 41, *Actuarial Communications*. In addition, the actuary should disclose the following [list] in such actuarial reports [if applicable]:



Disclosure

X.X.X Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in accordance with ASOP No. 41, when applicable, in an actuarial report:

- a. if any material assumption or method was prescribed by applicable law;
- b. if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary;
and
- c. if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this ASOP.



ASOP No. 56—Modeling

ASOP No. 56, *Modeling*, is effective for actuarial work performed on or after Oct. 1, 2020.

- Highlights:
 - Applies to actuaries when performing actuarial services with respect to designing, developing, selecting, modifying, or using models. Limited applicability when reviewing or evaluating models.
 - Applies when reliance on the model output by the intended user has a material effect for the intended user.
 - Applies only to the extent of the actuary's responsibilities.



ASOP No. 56—Modeling

- ASOP No. 56 highlights (cont'd.):
 - Understand model's intended purpose and confirm that design of model is consistent with the intended purpose (including model structure, data, assumptions)
 - Section on assumptions used as input including setting assumptions, possible range of assumptions, consistency, prior assumptions, reasonable in the aggregate
 - Section on understanding the model—basic operations, sensitivities, known weaknesses, limitations
 - Sections on reliances—data or other information supplied by others, model developed by others, experts in developing model
 - Section on model risk and model risk mitigation—model testing, model output validation, review by another professional, governance and controls



Academy Resources



Professionalism Resources

□ Academy Professionalism webpage

www.actuary.org/professionalism

* Code of Professional Conduct

* Standards of practice (ASB)

* Discussion papers

* Recent Articles

* U.S. Qualification Standards

* Applicability Guidelines

* Webinars

□ Academy's Professionalism First webpage

professionalism.actuary.org

* Access "Professionalism Perspectives" blog and Academy's podcast series, "Actuary Voices"



U.S. Qualification Standards and Tools

The screenshot shows the website for the Actuarial Board for Counseling and Discipline. The main navigation bar includes 'PUBLIC POLICY' and 'PROFESSIONALISM'. Below this, there are links for 'ABOUT US', 'MEMBERSHIP', 'NEWSROOM', 'INTERNATIONAL', and 'PUBLIC DISCIPLINE'. A 'Printer-friendly version' link is also present. The main content area is titled 'U.S. Qualification Standards' and includes a paragraph about the revision of standards effective Jan. 1, 2008. Three red arrows point to the following links: 'U.S. Qualification Standards (In effect as of Jan. 1, 2008)', '"Which CE Requirements Apply to Me?" Infographic (October 2013)', and 'FAQs on the U.S. Qualification Standards'. A fourth red arrow points to 'Submitting Additional Questions (use the online form to submit your additional questions about the U.S. Qualification Standards)'. On the right side, there are logos for the 'Actuarial Board for Counseling and Discipline' and the 'Actuarial Standards Board', and a 'QUICK LINKS' section with a list of links including 'Find an Actuary', 'Academy Committees', 'Board Election Center', 'Code of Professional Conduct', 'U.S. Qualification Standards', 'Volunteer', 'Profession-wide Search', and 'Additional Links'.

- CE Infographic
- 53 FAQs
- Submit Questions



Attestation Form

- <http://attest.actuary.org>
- Show how you meet
 - General Requirements
 - Specific Requirements
- Printable
- Can complete multiple attestations for multiple SAOs
- Can download complete attestation package (form and attachments)



Welcome To The U.S. Qualification Standards Attestation Form

Please log in above with your username and password to create or update your current and past attestations.



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Questions?

Learn more anytime at actuary.org.

