

PROFESSIONALISM AND ETHICAL CHALLENGES

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MIDDLE ATLANTIC ACTUARIAL CLUB

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Objectives of Today's Presentation

- Review the basic structures and key elements of U.S. actuarial professionalism.
- Identify tools and resources available to help actuaries keep up to date on professionalism.
- Examine case studies to stimulate discussion.



Web of Professionalism: Basis of Self-Regulation

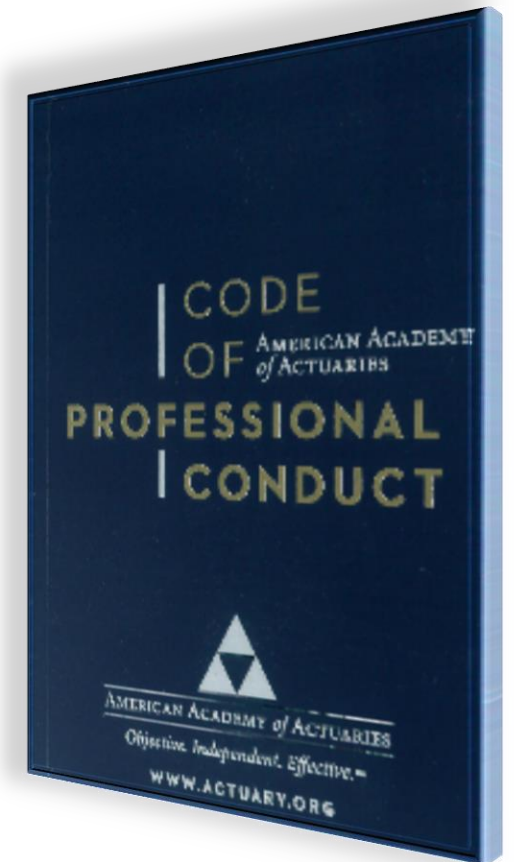


- The Code of Professional Conduct
- U.S. Qualification Standards (USQS)
- Actuarial standards of practice (ASOPs)
- Counseling and discipline



It All Starts With the Code

“The *Code of Professional Conduct* sets forth what it means for an actuary to act as a professional. It identifies the responsibilities that actuaries have to the public, to their clients and employers, and to the actuarial profession.”



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Code of Professional Conduct

- Actuaries may perform actuarial services only when qualified to do so.
- Actuaries must follow applicable standards wherever they practice.
- When Code and Law conflict, follow the Law.
- Actuaries who commit material violations are subject to counseling or discipline.



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Actuarial Standards of Practice

- The Actuarial Standards Board (ASB) creates, revises, and repeals Actuarial Standards of Practice (ASOPs), which provide guidance to all credentialed actuaries who perform actuarial services in the U.S.
- ASOPs provide:
 - Guidance to practicing U.S. actuaries when they do the work; and
 - Documentation of then-current practice in the event of a later dispute.
- ASOPs give the intended users of the actuarial work product assurance about its quality and suitability.
- ASOPs are not simply a codification of common practice but rather document “appropriate” practice (see ASOP No. 1, *Introductory Actuarial Standard of Practice*).



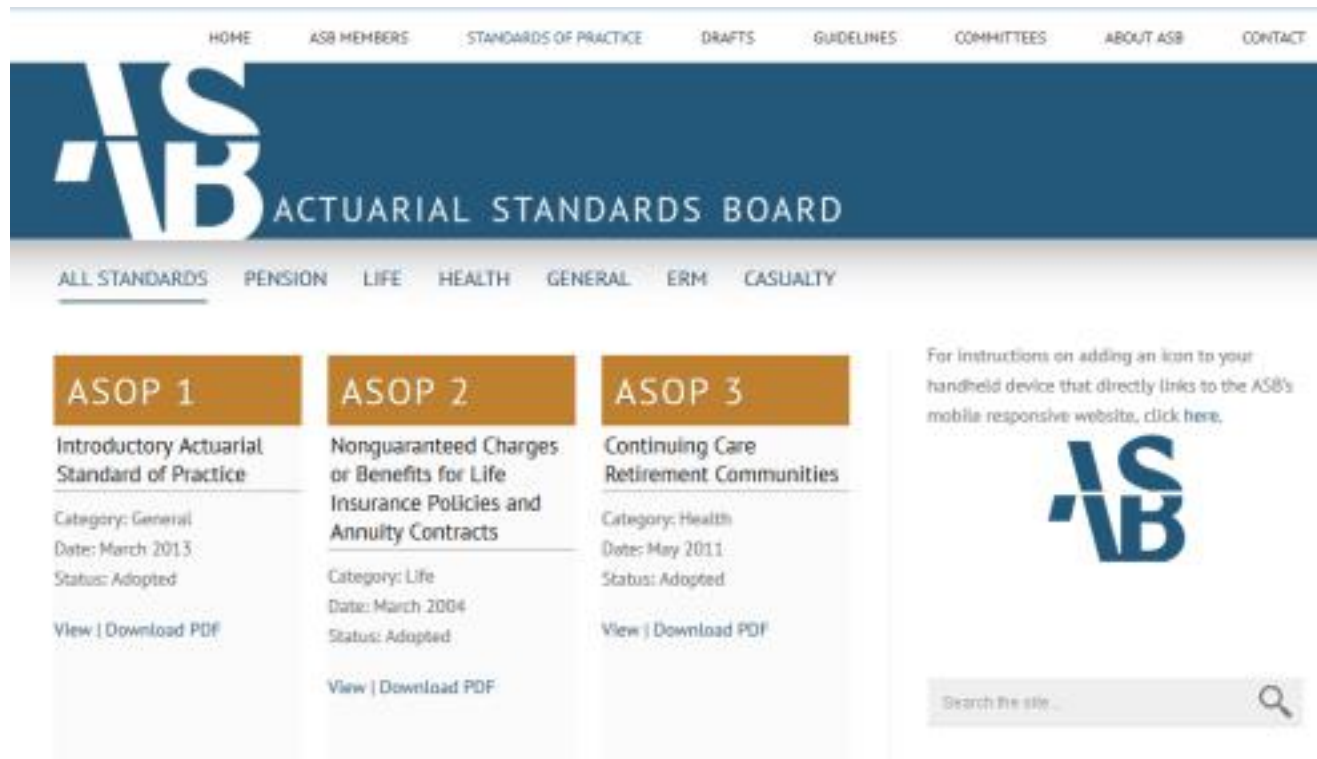
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Actuarial Standards Board Website

www.actuarialstandardsboard.org



- Read current standards of practice
- Comment on exposure drafts
- Sign up for *Boxscore*
- Contact the ASB



Tools for the Actuary: ASB Mobile-Friendly Website

- For **iPhones**: Add an icon to your device's home screen for quick access to the mobile site.



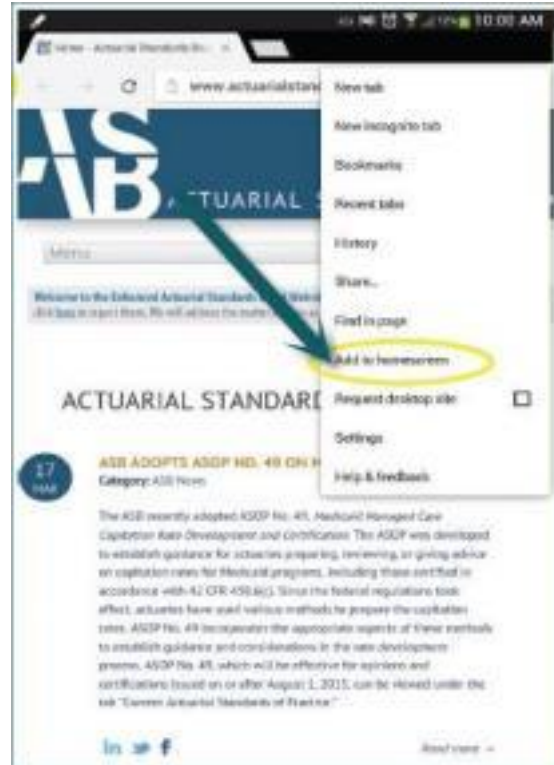
Tools for the Actuary: ASB Mobile-Friendly Website

- For **Androids**: Add an icon to your device's home screen for quick access to the mobile site.

1



2



3



Applicability Guidelines

PUBLIC POLICY | **PROFESSIONALISM**

ABOUT US | MEMBERSHIP | NEWSROOM | INTERNATIONAL | PUBLIC DISCIPLINE

Applicability Guidelines For Actuarial Standards Of Practice

Printer-friendly version

Introduction to the Applicability Guidelines

The five U.S.-based actuarial organizations have Codes of Professional Conduct that require their members to satisfy applicable actuarial standards of practice (ASOPs) when providing actuarial services. ASOPs are authoritative guidance for actuaries practicing in the U.S. and are issued by the Actuarial Standards Board (ASB).

The guidelines are updated periodically. The actuary is responsible for keeping current with changes to the ASOPs and determining that professional services rendered by the actuary or under the actuary's supervision satisfy the current version of each applicable ASOP. Please send suggestions for improving these guidelines (such as additional areas of practice that might be covered) to the Council on Professionalism at ApplicabilityGuidelines@actuary.org.

- For the current Applicability Guidelines, click [here](#)

QUICK LINKS

- Find an Actuary
- The Social Security Game
- Actuarial eLearning Center
- PAL Pension Assistance List Volunteers
- The Academy Celebrates 50 Years

- Suggest which ASOPs might apply to common tasks
- Listed by practice area
- Nonbinding
- Access downloadable file at bottom of page



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](#)

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6	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		
8	1.0 Appraisals																											
9	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		
10	2.0 Enterprise Risk Management/Own Risk and Solvency Assessment																											
11	2.0.1 Develop the ORSA, performing the modeling, and writing the					7				11	12			18	21								46	47				
12	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		
13	3.0 Experience Studies and Development of Related Assumptions																											
14	3.0.1 Perform experience studies	2		5	6							15		18									42		48			
15	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
16	4.0 Expert Advice, Witness, and/or Testimony																											
17	4.0.1 Provide expert witness testimony in connection with actuarially related matters	17																										
18	Note that any standards relating to the subject on which the actuary is providing expert advice would also apply.																											
19	5.0 Financial Analysis, Projection, and Reporting																											
20	5.1 Financial Analysis and Projections																											
21	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	
22	5.1.2 Compute economic capital			5		7				11	12									25			42					
23	5.1.3 Perform embedded value or market consistent embedded value calculations			5		7	10			11	12			18	19					25		40	42			52		
24	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				
25	5.2 GAAP Reporting																											
26	5.2.1 Account for reinsurance transactions			5		7	10			11	12			18	21					25			42					
27	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		



The ABCD



- Two primary functions
 - Respond to requests for guidance (RFGs) on professionalism issues.
 - Consider complaints about possible violations of the Code.



Requests for Guidance

- Guidance on an actuarial matter that you believe may affect your obligations under the Code.
- Confidential.
- Confidential advice on good professional practice from an individual member of the ABCD or the whole ABCD.



Examples of Requests for Guidance

- How do I know if I am qualified?
- How can I become qualified?
- How can I do a job that involves more than one area of expertise?
- How much can I rely on my supervisor?
- How much can I rely on my staff?
- How much documentation of my work should I save? What if I leave my company?
- When should I refuse an assignment?
- When should I make a complaint about another actuary?
- When is a violation of the Code material?
- When is a violation of the Code resolved?



ABCD Cases by Practice Area

		2014	2015	2016	2017	2018
New	Casualty	3	4	3	5	1
	Health	1	4	0	5	5
	Pension	30	8	12	10	3
	Life	1	3	4	2	4
	Total	35	19	19	22	13
Resolved	Casualty	5	3	6	0	1
	Health	1	2	2	2	7
	Pension	31	7	6	8	11
	Life	0	3	0	5	3
	Total	37	15	14	15	22



Major Issues by Precept (2018)

Major Issue Alleged	Discipline	Counsel	Dismiss	Total
Precept 1: Failure to act with integrity	1	4	2	7
Failure to perform services with competence	1		1	2
Calculation or data errors	1		1	2
Other errors in work	1			1
Failure to uphold reputation of profession	1	4	1	6
Precept 2: Performing work when not qualified				
Precept 3: Work fails to satisfy an ASOP		4	5	9
Use of unreasonable assumptions		4	2	6
Precept 4: Inadequate actuarial communication	1	4	5	10
Precept 5: Failure to identify Principal				



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Major Issues by Precept (2018)

Major Issue Alleged	Discipline	Counsel	Dismiss	Total
Precept 6: Failure to disclose				
Precept 7: Conflict of interest				
Precept 8: Failure to take reasonable steps to prevent misuse of work product			2	2
Precept 9: Disclosure of confidential information				
Precept 10: Failure to cooperate with other actuary			1	1
Precept 11: Improper advertising		3		3
Precept 12: Improper use of designation				
Precept 13: Failure to report violation				
Precept 14: Failure to cooperate with the ABCD				



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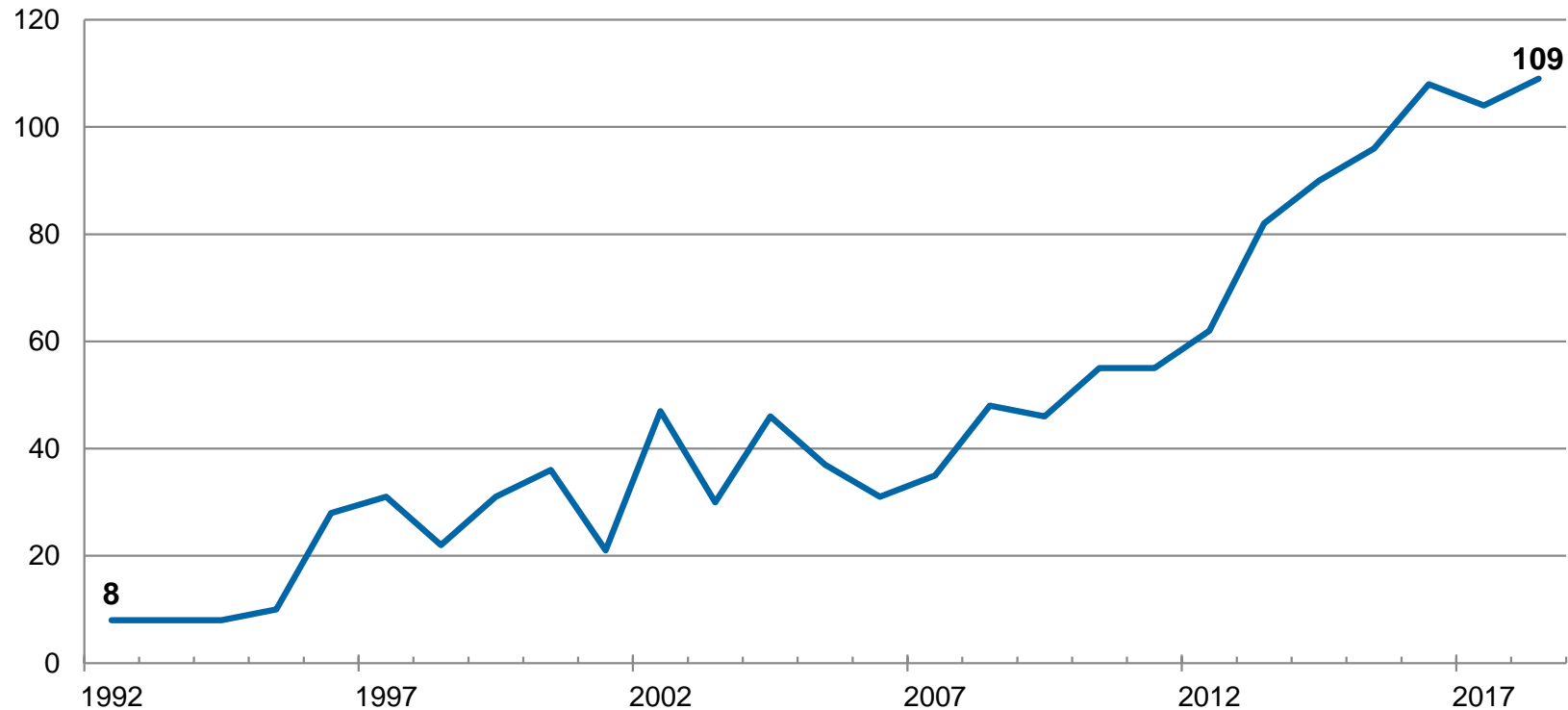
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ABCD Requests for Guidance

- There has been a significant increase in RFGs over the years.

Requests for Guidance, 1992-2018



ABCD Requests for Guidance

	2014	2015	2016	2017	2018
Pension	30	27	26	28	24
Health	19	22	25	35	32
Life	17	19	23	13	15
Casualty	20	23	28	24	27
Other	4	5	6	4	11
Total	90	96	108	104	109



U.S. Qualification Standards (USQS)

- Precept 2 of the *Code of Professional Conduct* states in part that:
 - “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.**” (emphasis added)
- The USQS applies to members of all five U.S.-based actuarial organizations (Academy, ASPPA/ACOPA, CAS, CCA, and SOA).
- The USQS sets forth qualification requirements for actuaries practicing in the U.S.



USQS: General Structure

- Introduction (including definitions)
- General Qualification Standard
 - Basic Education and Experience Requirements
 - Continuing Education Requirements
- Specific Qualification Standards (when necessary)
- Changes in Practice and Application (general and specific)
- Acknowledgement of Qualification (suggested language)
- Recordkeeping Requirements



Working Through Ethical Dilemmas

- Am I being compliant?
- Am I being transparent?
- Am I upholding the reputation of the profession?
- Is it the right thing to do?



Case Studies



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Scenario 1

Live Well and Long, a life insurance company, has developed a new life insurance product that includes an LTC benefit. As part of the policy form filing with the state insurance department, an Actuarial Memorandum is also required. As part of the development of this new product, Live Well and Long performed many deterministic sensitivity tests as part of the profitability analysis and described them in the memorandum. The insurance department actuary reviewed the memorandum and asked why stochastic methods were not used, as this was not documented in the memorandum. Live Well's actuary did not have company experience data for long term care and relied on publicly available tables of morbidity.

QUESTION: What should have been documented in the actuarial memorandum?

The insurance department actuary also asked about the margins included in the pricing of the product, as described in the actuarial memorandum. Each margin for each assumption was described in the actuarial memorandum.

QUESTION: Is this enough information?



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Scenario 2

Ivan Dunno, ASA, works for a small insurance company, Periwinkle Life & Health. Periwinkle Life & Health makes no effort to ensure that actuaries in its employ meet continuing education (CE) requirements for actuaries issuing statements of actuarial opinion (SAOs) in the U.S. Early in the fourth quarter of 2017, Mr. Dunno, informs his boss, Mr. Arthur Doncare, FSA, that he is in danger of failing to accumulate enough CE hours to meet CE requirements for the year. Because Mr. Dunno is responsible for statements of actuarial opinion (SAOs), he asks his boss to provide him with time and funds to attend sufficient organized education events to meet the CE requirements of the U.S. Qualification Standards for 2018. His boss, Mr. Doncare, refuses. Mr. Dunno calls the ABCD to submit a request for guidance.

QUESTION: If you were the ABCD member assigned to respond, what would you include in your discussion?



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Scenario 3

Tara A. Bandonship, an actuary, has left her long-time employer, G. Willickers Actuaries (Willickers), for a new position at SayWhat Consulting. While at Willickers, Ms. Bandonship worked for several years on the Combined Life and Long Term Care offering for Large Employer, Inc.'s self-insured plan. As it happens, SayWhat Consulting has been engaged to perform a review of the most recent reserve valuation performed by Willickers for the combo product for Large Employer, Inc. Tara A. Bandonship's new boss tells her that her first assignment in her new job will be to lead the team performing the Large Employer review, because her familiarity with the plan provisions will allow the project to be carried out very efficiently and because she knows where Willickers "cut corners" and thus is more apt to identify subtle problems that other actuaries would have trouble finding.

QUESTION: Can Ms. Bandonship do this and fulfill the requirements of the Code of Professional Conduct?



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Scenario 4

Continuing with the prior example . . . SayWhat Consulting performs the Large Employer review using Ms. Bandonship as the lead consultant without addressing the conflict of interest. Ms. Bandonship's former colleagues at G. Willickers Consulting become aware of this (and say to each other "G Willickers!") but say nothing to anyone else about it because they consider Tara A. Bandonship to be a "friend." The CFO of Large Employer learns of Ms. Bandonship's work on the audit, immediately senses the conflict of interest, and files a complaint against the actuary with the ABCD.

QUESTIONS: Who is at fault here? What if Ms. Bandonship refuses to cooperate with the ABCD?



Scenario 5

Subject Actuary sent numerous inappropriate e-mail transmissions of a harassing, vulgar, threatening, and intimidating nature to actuaries and others. Subject Actuary was arrested for sending harassing e-mails and ordered by a court not to send such communications in the future. Subject Actuary's e-mail transmissions made personal attacks using indecent and grossly offensive language. These e-mails caused distress, anxiety, and fear in the recipients.

QUESTION: Subject Actuary was disciplined. Why?



Scenario 6

Yolanda Restless, an actuary, notices that Sebastian Crabbit, the senior actuary for her company, has repeatedly used a designation of a U.S. actuarial organization of which, she believes, the senior actuary is not a member. Ms. Restless discusses her concern with Mr. Crabbit. Mr. Crabbit responds that he had previously been a member of the organization, but has not paid membership dues for a few years. Crabbit states he has no intention of stopping his use of the membership designation. He remains a paid-up member of two other actuarial organizations.

QUESTIONS: Is Sebastian Crabbit complying with the Code of Professional Conduct? How should Yolanda Restless try to address this situation?



Scenario 7

The State of Empire recently adopted a new regulation that requires use of a 2% interest rate scenario on investment returns for all principle-based reserve modeling work. Raymond, an FSA and MAAA, knows that average portfolio returns were around 3% in 2035 when that state adopted PBR, but since then, the portfolios he is modeling has been achieving 12% per year. Raymond also knows that most investment advisors predict average returns of at least 8% for the foreseeable future. Raymond is completing an actuarial report for Empire and will use the 2% because that is what the State of Euphoria's new law requires but he feels strongly that the interest rate assumption should be higher.

QUESTION: What should Raymond do?



Scenario 8

Subject Actuary, retired, performed services as an expert witness. Subject Actuary issued actuarial statements of opinion without completing continuing education requirements. Subject Actuary stated that retirement status exempted him from continuing education obligations.

QUESTION: Subject Actuary was disciplined. Why?



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Scenario 9

An actuary named Thomas Endoduline has been terminated by his consulting firm employer. Another actuary at the firm, Thomasina Promise, has questions on his work papers for a client, but Mr. Endoduline has refused to cooperate or answer any questions.

QUESTION: Is this a potential violation?



Scenario 10

Mr. Hal Dareya, an FSA, has been practicing in the Health area for many years. He has a new assignment in his company, DoLifeandHealthWell, in the Life business. Despite no actual experience in this area, he is responsible for reviewing pricing and reserves.

Explain whether he is qualified to do this work and include references to the relevant Precept(s) of the Code and the requirements under the USQS. **QUESTION:** How would your answer change if Hal Dareya were an ASA, rather than an FSA?



Professionalism Resources

- Academy Professionalism webpage

www.actuary.org/content/professionalism

- * Code of Professional Conduct
- * Standards of practice (ASB)
- * Discussion papers
- * U.S. Qualification Standards
- * Applicability Guidelines
- * Webinars

- Academy's Professionalism First webpage

www.professionalism.actuary.org



Professionalism Resources

The screenshot displays the American Academy of Actuaries website. At the top, the logo and tagline "AMERICAN ACADEMY of ACTUARIES Objective. Independent. Effective.™" are visible. Below this is a banner image of three professionals in a meeting. A white and blue banner across the image reads "A Culture of Professionalism First" and "Standards • Responsibility • Competence • Trust". Below the banner, the word "STANDARDS" is centered in a large, bold font. Underneath, a paragraph states: "The Academy provides standards of conduct, practice, and qualification for the U.S. actuarial profession. These standards together ensure responsibility, competence, and trust." At the bottom of the screenshot, three colored boxes are arranged horizontally: a light blue box labeled "RESPONSIBILITY", a dark blue box labeled "COMPETENCE", and a medium blue box labeled "TRUST".

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QUESTIONS?

THANK YOU.

