

AMERICAN ACADEMY OF ACTUARIES

Council on Professionalism

**STRUCTURAL FRAMEWORK OF
U.S. ACTUARIAL PROFESSIONALISM**

Concepts on Professionalism

Discussion Paper

Prepared by

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BACKGROUND

In order to codify the structural framework within which the newly developing Actuarial Standards of Practice (ASOPs) were intended to operate, an initial action of the Interim Actuarial Standards Board (IASB) was to commission the late, distinguished actuary, Edward A. Lew, to develop a prefatory document to the ASOPs. The resulting document, entitled *Preface to Actuarial Standards of Practice* (Preface), was completed and published in 1989 and has been included in the standards library since that time. This extraordinary document provided an excellent insight into what constitutes a profession and the role that professionalism standards and procedures for discipline play for professions, in general, and the actuarial profession, specifically. It also provided valuable historical insight into the development of the professionalism standards and discipline procedures of the actuarial profession in the U.S.

In the ensuing fifteen years, a number of significant changes in the structure of actuarial professionalism in the U.S. have taken place. These include the creation of the Actuarial Board for Counseling and Discipline, the expansion of the Qualification Standards and Continuing Professional Education requirements, the adoption of a single Code of Professional Conduct by each of the U.S.-based actuarial organizations, the reformatting of the ASOPs, and the globalization of actuarial practice, all of which have begged for an update of the Preface. Recently, the Actuarial Standards Board (ASB) determined that there was a pressing need to address more fully and clearly the intended purpose, application, interpretation, and limitations of ASOPs. The ASB created a special task force with the charge to accomplish these revisions.

Upon recommendation by the task force, the ASB, with the concurrence of the Council of Professionalism, agreed that it would be appropriate to develop two separate documents:

1. A new introductory document, applicable to all ASOPs, addressing in greater depth their intended purpose, interpretation, application, and limitations. This document would be developed by the task force and subjected to the usual exposure process to the membership by the ASB to secure its input. As such, the document would have the same weight as any promulgation of the ASB.
2. A recast and expanded version of the Preface, giving more equal emphasis to all elements of actuarial professionalism, that would serve as an overview of the structural framework of U.S. actuarial professionalism in general. This document would be developed by the task force under the aegis of Council on Professionalism as a non-binding discussion paper on actuarial professionalism in the United States.

The first document, entitled *Introduction to the Actuarial Standards of Practice*, was approved for exposure to the membership by the ASB in October 2003.

This discussion paper is the recast and expanded version of the Preface. While there has been a significant restructuring of the original document and the addition of material to reflect the changes that have occurred since it was developed, as much as possible of Mr. Lew's inimitable, original narrative and flavor has been retained. Certain portions of the original narrative, where deemed appropriate, have been incorporated in the *Introduction to the Actuarial Standards of Practice* or the Committee on Professional Responsibility's discussion paper, *The Roles of the Actuary in the Selection and Application of Actuarial Models*.

PERSPECTIVE ON PROFESSIONS

Most of the technical and service professions as we know them today developed in the nineteenth century. They initially depended on education through apprenticeship. Later, examinations and other qualifications were established by their professional organizations. These followed the patterns set earlier by the older professions, such as medicine and law. Central in value for these professions were personal service and ethical conduct. In newer professions providing technical and commercial services to industry and business, such as engineering and accountancy, emphasis soon came to be placed on the specialized knowledge and skills that defined the professional. Increasing employment of professionals in organizations raised issues of professional authority and independence.

The essential characteristic of a profession has come to be expertise in the area where professional services are performed. This typically requires setting of selective standards for admission to the profession, intellectual and practical training to acquire professional competence, and an effective means to test such competence. To ensure that professional services are delivered in a manner generally expected of professionals, it has become necessary to lay down canons of professional performance and behavior in work situations, as well as procedures for maintaining discipline.

Professional services have been performed in a variety of settings. The older professions, such as medicine and law, were carried on overwhelmingly by independent entrepreneurs, hedged around only with professional restrictions. Increasingly, however, these professions and especially the newer professions, such as engineering and accountancy, have come to act largely in professional groups or as employees of business organizations. Professional services provided by business organizations are a means to the financial ends of such organizations. Professionals employed by a business organization normally share responsibility for their actions with the employer, whereas professionals in private practice typically bear their responsibility alone. Regardless of their employment status, most professionals have a mandate from their profession to act consistent with the public interest.

Standards of professional conduct, qualification, and practice, or professionalism standards, have been developed by most professions to meet the expectations of both direct and indirect users of professional services, including individual and corporate clients, governmental authorities, and the general public. Those seeking professional services usually turn for advice to professionals because of the trust they repose in the expertise, reputation, and standing of the profession. For

these same reasons, laws or regulations frequently require that the services of members of specified professional organizations be utilized in fulfilling their requirements.

Written professionalism standards have been adopted by many professions for various reasons, among them, to articulate more explicitly their commitment to expertise and conscientious service, to educate their members concerning appropriate practice, to assure regulatory authorities that they can depend on the profession to act effectively consistent with the public interest, and, more generally, to inform users of professional services of what they might reasonably expect by way of professional performance and conduct. Established professionalism standards, coupled with established procedures for disciplining members, are evidence that a profession is in control of its governance and is appropriately sensitive to the public interest.

Professionalism standards not only guide professional performance in different settings, but also help maintain the high quality of professional services. High quality is usually maintained, at least in part, by continuously expanding the body of knowledge and skills on which the profession's collective services are based. Established professionalism standards also serve to assure the users of a profession's services that the profession imposes upon its members appropriate requirements, not only with respect to knowledge and skills, but also with respect to integrity, independence, and a commitment to quality service.

PROFESSIONAL CONDUCT

Issues of professional conduct emerge primarily in the professional's relationship with principals, including clients and employers. In professional relationships, whether with clients, employers, members of the profession, or others, the professional bears a responsibility not only for personal behavior but also to bear in mind the good name of the profession. This latter responsibility was eloquently described by Francis Bacon as follows:

I hold every man a debtor to his profession, from which as men of course do seek to receive countenance and profit, so ought they of duty to endeavor themselves by way of amends to be a help and ornament thereunto.

As a professional, the actuary is normally assumed to have the knowledge, skills, and judgment that persons who seek actuarial advice do not have. Actuaries are normally expected to provide counsel and services that are in their clients' interest and consistent with the public good. Such counsel is best imparted in an atmosphere of mutual trust and confidentiality, an optimal condition for professional advice. Persons receiving such advice are likely to have greater confidence if they know that the actuary is bound by standards of conduct developed and enforced by the actuarial profession.

In recognition of a profession's collective obligation to the public, standards of professional conduct may impose requirements that are stricter than those required by ethical considerations or by legal prescriptions. Professional conduct requires competence, integrity, objectivity of a high order, and a commitment to service. These are necessary to assure users of actuarial services that they will receive the benefits of sound actuarial judgment on such important issues as the financial stability of insurance, pensions, and other benefit programs. Only qualified actuaries may be in a position to distinguish between acceptable and unacceptable advice in these complex areas. The profession, as well as the individual actuary, is responsible for the soundness of actuarial advice, since it is ultimately the profession, and not the individual actuary, that may be called upon to demonstrate that services provided by the members of the profession are being delivered with competence, integrity, and independence. The profession can do this only if it has promulgated standards of professional conduct that are broadly accepted by the membership and are enforced by appropriate disciplinary procedures. The actuarial profession thereby acknowledges the full extent of its responsibilities to the public.

As circumstances change, the actuarial profession from time to time reviews its standards of professional conduct as well as its disciplinary machinery and brings them into line with current thinking.

PROFESSIONAL QUALIFICATIONS

The quality of professional performance rests not only on a mastery of the underlying fundamentals and principles of the profession, but also of currency in the relevant aspects of the rapidly growing information and special skills needed to solve problems, as well as on sound business judgment based on experience.

Professions themselves, or the regulatory bodies charged with their oversight, normally require a demonstration of a mastery of the underlying fundamentals, principles, and practices of the technical aspects of professional practice before applicants can be admitted to membership or to practice in the profession. Such professional credentialing has usually required not only the successful completion of, and testing on, a prescribed curriculum of professional topics, but also the meeting of certain experience requirements.

As technology and practice have advanced, the specialized areas of practice within a given profession have tended to multiply, broaden, and become subject to new innovations and increasing complexity and regulation. Professionals, in recognition of their obligation to provide professional services with skill and care, have tended to limit their areas of specialized practice to those areas they can comfortably keep abreast of and remain competent to practice in.

In the case of the actuarial profession, the traditional broad specialties of Life, Casualty, Pension, Health, and the more recently developed specialties of Finance and Investments, have all developed extended arrays of specialty practice areas and regulatory requirements. Newly emerging areas of actuarial practice may also require consideration and monitoring, as do advances in basic actuarial theory. The requirements of the various insurance departments and the model regulations developed by the National Association of Insurance Commissioners (NAIC), the regulations governing Enrolled Actuaries, and the provisions of the Internal Revenue Code are examples of areas that require continual review and comprehension.

To assist the professional and to comply with their collective responsibility to the general public and users of professional services, professions themselves, or the regulatory bodies charged with their oversight, have generally articulated specialized qualification standards that the individual professional should satisfy in order to undertake certain types of assignments or to practice in a given specialty area. These qualification standards are in addition to any basic credentialing requirements and generally impose additional requirements in terms of basic education or demonstrated competence, experience, and continuing professional education in the areas of specialty practice.

PROFESSIONAL PRINCIPLES AND PRACTICES

Every profession starts with a body of knowledge and a set of principles for reasoning from such knowledge. These principles derive from a number of fundamental concepts and a rationale of methods used in the application of these concepts in practice.

The fundamental concepts typically take the form of explanatory theories and of precepts that provide a broad perspective for solving problems. Fundamental actuarial concepts include such basic theories and precepts as Individual Risk Theory, Collective Risk Theory, Utility Theory, and Time Value of Money.

In its early deliberations, the Interim Actuarial Standards Board (IASB) recognized that while these fundamental concepts and precepts had been discussed at some length in statistical, economics, and actuarial literature, they had not been brought together as a base for reasoning and a guide to action. This fact moved the IASB in 1987 to commission the monograph *Fundamental Concepts of Actuarial Science*¹ under the auspices of the Actuarial Education and Research Fund.

In working out practical solutions of actuarial problems, actuarial science begins with the fundamental concepts and broad perspectives and then makes use of techniques that have their own scientific rationale; in other words, it relies on tested methodological principles. Such principles can frequently be expressed in different ways, which are called rules of calculation or techniques. Thus, different techniques may be used in testing the accuracy of data, adapting experience data for projections, developing appropriate assumptions, and appraising consequences of alternative courses of action.

Committees of the Society of Actuaries and of the Casualty Actuarial Society have codified the actuarial methodological principles and periodically review their effect on areas of particular importance for actuaries, such as valuation.

With the revolution in computers and communication, new methods are being introduced and new state-of-the-art techniques developed. As these developments occur, the scientific rationale

¹ This monograph, written by Charles L. Trowbridge, is no longer in print but may be viewed on the Actuarial Education and Research Fund website at www.aerf.org/concept.html.

of the new approaches needs to be examined and the acceptable practices restated, as appropriate.

Professional standards of practice take account not only of the relatively unchanging fundamental concepts but also of the rapidly changing techniques as applied to the increasingly complex problems of today's world. While new actuarial standards of practice may be promulgated to deal with a wide variety of situations, the multiplicity of circumstances encountered in real life and the pace of technological advancement make it necessary for standards of practice to leave wide discretion for the exercise of individual judgment by the practicing actuary.

PROFESSIONAL DISCIPLINARY PROCEDURES

The impact that professionalism standards make on professional behavior depends in significant part on their acceptance as a professional norm and on their enforcement through disciplinary procedures administered by the professional organization. The professional behavior of its established members can demonstrate and encourage ethical values and styles for the newer members. Published professionalism standards provide a more tangible indication of what is expected by users of actuarial services and regulatory authorities in the way of professional performance. The manner in which the profession responds to violations of professionalism standards is crucial to their confidence. Well-administered disciplinary procedures are clearly needed to demonstrate that the profession is in charge of its standards and thus able to protect the public appropriately.

A distinguished physician summed up this point by saying that:

A profession is distinct from an occupation in that it has been given the right to control its own work.²

He added that only a profession can determine “who legitimately can do its work and how the work should be done.”

The educational and other qualifications for admission to the actuarial profession indicate who may be qualified for actuarial work. Actuarial standards of conduct identify the actuaries’ responsibilities to their profession, their principals, and others in the performance of their work. Actuarial standards of qualification determine which actuaries are qualified to undertake various types of assignments. Actuarial standards of practice indicate how the work should be performed. Enforcement of high professionalism standards, as well as the maintenance of high standards for admission to the profession, are necessary to assure that the actuarial profession is appropriately overseeing the work of its members.

² Eliot Freidson, *The Profession of Medicine*. Chicago, University of Chicago Press.

U.S. ACTUARIAL STANDARDS OF CONDUCT

Comprehensive standards of professional conduct for the U.S. actuarial profession are of relatively recent origin. The Society of Actuaries, which traces its origins to 1889, appointed its first standing Committee on Professional Conduct in 1954. In 1957, the committee presented its report which contained a set of fourteen *Guides to Professional Conduct*. These *Guides* dealt only with principles and precepts and were not intended to be construed as precise rules.

In 1956, the Conference of Actuaries in Public Practice,³ which was formed in 1950, published its *Code of Professional Conduct*, which provided additional guidance in the areas of relationships with the public and with other actuaries.

The Casualty Actuarial Society, founded in 1914, created its first standards of conduct in 1959, entitled *Guides to Professional Conduct*, consisting of thirteen principles, stated simply as numbered rules.

In December 1965, immediately after its formation, the American Academy of Actuaries (Academy) issued its own *Guides to Professional Conduct*, which covered the topics of: (1) professional duty, (2) nature of the member's responsibility to the principal, (3) relationship with the principal, (4) impartiality and independence, (5) advertising and publicity and relations with other members, (6) remuneration, and (7) use of titles.

The Academy's *Guides to Professional Conduct* were reformatted and revised in November 1969. At the same time, they were expanded by adding an *Interpretative Opinion* on Relations with Other Actuaries. Other changes and additional *Interpretative Opinions* followed on an ad hoc basis.

The American Society of Pension Professionals and Actuaries, which was formed in 1966, created a *Code of Professional Conduct* in 1972 that was applicable to both its actuary and its non-actuary members.

In an attempt to facilitate the development of uniform standards of conduct within the actuarial profession, a Joint Committee on Professional Conduct was created in 1972 to coordinate activities among the professional conduct committees of the Academy, its four founding

³ Currently, the Conference of Consulting Actuaries.

organizations,⁴ and the Canadian Institute of Actuaries. This effort initially brought about a uniform format for the *Guides and Interpretative Opinions* of each organization with *Guides* that were consistent among the organizations and *Opinions* which were designed to be as consistent as possible, but allowed for differences, additions, or deletions when an organization deemed it appropriate. The *Opinion* numbers of each organization were prefaced with an alphabetic character that designated the organization.

By the early 1990s, the standards of professional conduct of the five U.S.-based actuarial organizations⁵ had developed significant inconsistencies. For example, in 1983 the Society of Actuaries dropped its *Interpretative Opinions* entirely and compensated by expanding its *Guides to Professional Conduct*. The standards of conduct of the American Society of Pension Professionals and Actuaries were combined with practice procedures and related specifically to Enrolled Actuaries and their interrelationships with pension practitioners. These and other inconsistencies presented potential conflicts and problems in the administration of discipline for those actuaries who were members of more than one of these actuarial organizations.

To address these potential conflicts, a committee was established by the Council of Presidents to review the standards of conduct of the North American actuarial organizations it represented⁶ and to develop a single, uniform Code of Professional Conduct that could be adopted by each organization. The resulting Code of Professional Conduct (1992 Code) provided a new format and structure for standards of conduct, consisting of sixteen *Precepts* and a total of twenty-three *Annotations* contained under eleven broad headings. The *Precepts* identified the professional and ethical standards with which the actuary must comply and the *Annotations* provided additional explanatory, educational, and advisory material on how the *Precepts* were to be interpreted and applied. The 1992 Code was adopted by each of the U.S.-based organizations, to be effective January 1, 1992, but with variations by organization. The Canadian Institute of Actuaries did not adopt the 1992 Code due to the differences in laws and customs in Canada and the responsibilities imposed upon it as the result of its federal charter.

⁴ The Casualty Actuarial Society, Conference of Actuaries in Public Practice, Fraternal Actuarial Association, and Society of Actuaries. The Fraternal Actuarial Association was dissolved in 1980.

⁵ The American Academy of Actuaries, American Society of Pension Professionals and Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries.

⁶ The five U.S.-based actuarial organizations and the Canadian Institute of Actuaries.

The differences in the 1992 Codes that had been adopted by the U.S.-based actuarial organizations were finally resolved by a Joint Committee on the Code of Professional Conduct established by the Academy. The revised, single Code of Professional Conduct (1994 Code) was adopted by each of the organizations effective January 1, 1994. The 1994 Code consisted of sixteen *Precepts* and a total of twenty-five *Annotations*. The Joint Committee was dismissed shortly after completing the revision.

Following their adoption, a number of differences, some significant, had developed between the 1994 Codes of the U.S.-based organizations, and needed to be eliminated. The increasing globalization of actuarial practice had also suggested the need for modification of the Code. Additionally, the Actuarial Board for Counseling and Discipline, which had been established in 1992, had identified areas where the 1994 Code would benefit from clarification or revision. To address these issues, the current Joint Committee on the Code of Professional Conduct was established by the Academy in 1997 with the charge to update and re-draft the 1994 Code so that it could be adopted as the same, identical document by each of the U.S.-based actuarial organizations. After significant restructuring and revision and two exposure drafts, the committee developed a single Code of Professional Conduct (2001 Code) that was adopted, without variations, by the boards of each of the U.S.-based actuarial organizations, effective January 1, 2001. The committee also assumed the responsibility of monitoring the current Code on an ongoing basis and, as needed, proposing revisions that could be adopted in identical form and become effective concurrently by each of the organizations.

The 2001 Code begins with introductory paragraphs that: identify the purpose of the Code; explain the nature of the *Precepts* and the *Annotations*; alert actuaries to the fact that when they practice in jurisdictions outside of the U.S., they are also subject to any recognized actuarial standards of conduct promulgated for those jurisdictions; identify the need for actuaries to be aware of the requirements of law and the precedence of the law when it conflicts with the Code; and an admonishment to keep abreast of all applicable local actuarial standards of conduct and laws. The introductory paragraphs are followed by a section containing definitions of certain terms used in the Code. Following the definitions are fourteen *Precepts* and a total of twenty-three *Annotations* under eleven broad headings.

U.S. ACTUARIAL STANDARDS OF QUALIFICATION

In 1896, the American Actuarial Association⁷ adopted a resolution establishing the first actuarial examination system in North America, the successful completion of which was necessary for an applicant to be considered for membership and to gain actuarial credentialing. Currently, all of the U.S.-based actuarial organizations either administer their own rigorous examination systems for membership or base their admission requirements on the candidate's successful completion of a specified level of examinations given by another recognized professional actuarial organization or regulatory body and the meeting of specific requirements as to responsible actuarial experience.⁸

As a result of the Employee Retirement Income Security Act of 1974 (ERISA), the Joint Board for the Enrollment of Actuaries (Joint Board) was established by the Department of Labor and the Department of Treasury. Among its responsibilities, the Joint Board develops the requirements for actuaries to become credentialed as Enrolled Actuaries, and thus be able to perform specific functions and to sign required documents related to employee benefit programs covered by ERISA. Those requirements currently include the successful completion of specified examinations covering the practices and regulations in the employee benefits area.

While the credentialing of actuaries by the U.S.-based actuarial organizations and/or the Joint Board attests to the successful demonstration of competence of the actuary at the time of admittance to membership or credentialing, the areas of actuarial practice and specialization in the U.S. have increased significantly over time as have the advances in actuarial theory and technology and the complexities imposed by changing regulations. While a segment of the general public and the users of actuarial services may believe that any actuary, once credentialed, is capable of rendering actuarial services in any area of specialization, the actuarial profession recognizes that, in the current environment, this is unlikely to be the case.

⁷ The American Actuarial Association, founded in 1889, and the American Institute of Actuaries, founded in 1909, were merged in 1949 to form the Society of Actuaries.

⁸ In the case of the American Society of Pension Professionals and Actuaries, which has both actuary and non-actuary members, the reference is to those members having one of the two actuarial membership designations, MPSA or FPSA.

An integral part of the actuarial standards of conduct in the U.S. has always been a requirement that actuaries provide services or give advice only when they are qualified to do so. To assist the actuary in this determination and to satisfy the profession's collective responsibility to the general public and users of the actuary's services, the Academy has established Qualification Standards that should be satisfied before an actuary undertakes certain types of assignments or provides services in a given specialized practice area.

In 1975, the Instructions to the NAIC Life and Accident and Health Blank were amended to require a statement of opinion by a qualified actuary (Actuarial Opinion) relating to the policy and contract reserves and other actuarial items contained in an Annual Statement of a life insurance company. The NAIC subsequently provided for an optional Actuarial Opinion relating to the loss and loss expense reserves and other actuarial items contained in an Annual Statement for a fire and casualty insurance company on a state by state basis.⁹ For purposes of signing the Actuarial Opinion, a member of the American Academy of Actuaries was deemed to be a qualified actuary for the life insurance company Annual Statement and a member of the Casualty Actuarial Society for the fire and casualty company Annual Statement.

In 1979, the Academy established two committees, one for Life Qualifications and the other for Property and Liability Qualifications, to recommend standards for signing these Actuarial Opinions. The recommendations of these committees were exposed to the membership for comment and the revised *Qualification Standards to Sign Statements of Actuarial Opinion on NAIC Annual Statement Blanks* were adopted by the Academy in October of 1981, under the purview of the Committee on Qualification Standards.

These first Qualification Standards consisted of two parts, one addressing education requirements and the other experience requirements. The education requirements consisted of a list of topics of which the actuary should have acquired a comprehensive knowledge. These topics were generally included in the examination syllabus of either the Society of Actuaries or the Casualty Actuarial Society. An important provision of the education requirements was that the actuary update and maintain knowledge by continued study and practice. The experience requirements included, in part, at least three years of recent experience in a responsible capacity under qualified supervision.

⁹ The Instructions to the NAIC Blanks were amended, starting with statement year 1990, to require an Actuarial Opinion for all fire and casualty insurance company Annual Statements.

In 1984, additional Qualification Standards were adopted by the Academy for signing the Actuarial Opinion for the Annual Statements filed on the NAIC Hospital, Medical and Dental Services or the Indemnity Corporation Blank and the Health Maintenance Organization Blank.

In 1986, the Academy established a task force to develop a program of continuing education recognition similar to those being considered by the other actuarial organizations but tailored to the specific requirements of the Academy. After extensive solicitation of member opinions and two exposures, the final report of the task force was adopted by the Academy Board in June of 1989, with its provisions to become effective in 1990. That report proposed that, instead of a voluntary program of continuing education for all members as had originally been suggested, a mandatory continuing education program be established for those actuaries subject to any of the three existing Qualification Standards. It would require a minimum annual average of twelve hours of continuing education in the relevant area of qualification.¹⁰ The report also addressed administrative details and proposed guidelines on acceptable types of continuing education activities.

At the same meeting, the Academy Board adopted the final report of the Committee on Qualifications recommending a restructuring of the Qualification Standards to develop two types of standards. The first type, a General Qualification Standard, would apply to any Public Statement of Actuarial Opinion (PSAO) for which a standard of the second type, a Specific Qualification Standard, had not yet been developed. The latter classification would include the three existing Qualification Standards. A PSAO was defined as any opinion called for by law or regulation or by a standard of practice promulgated by the newly created Actuarial Standards Board. The report also addressed the education and experience requirements for the General Qualification Standard.

The Academy Board adopted the newly structured *Qualification Standards for Public Statements of Actuarial Opinion* in January of 1991 and incorporated the new continuing education requirements into these standards in September of 1991. The resultant Qualification Standards essentially integrated the proposals set forth in the final reports of the Committee on Qualifications and the Task Force on Continuing Education Requirements¹¹ adopted in 1989, with certain revisions made as the result of additional exposures by each group. The Committee on Qualifications assumed the responsibility for administering the continuing education requirements.

¹⁰ The Joint Board adopted somewhat similar requirements in 1988 for Enrolled Actuaries for renewal enrollment periods starting April 1, 1990.

¹¹ Subsequently renamed the Task Force on Continuing Education Requirements and Recognition.

Several revisions to the Qualification Standards took place throughout the 1990s that added clarifications, expanded definitions, and provided additional guidelines on acceptable types of continuing education activities. In 1993, the definition of PSAO was revised to include a third category of actuarial communications, those issued for purposes of compliance with standards promulgated by the Financial Accounting Standards Board and the Government Accounting Standards Board.¹² Appendices were added containing examples of specific PSAOs, addressing the requirements for public sector actuaries, explaining the procedures for amending Qualification Standards, and providing sample statements and record keeping forms and other useful information. During this period the “P” in PSAO was changed from “Public” to “Prescribed” in order to provide a clearer description of the nature of these statements.

In 2004, the Academy Board approved an exposure draft of a revision of the Qualification Standards. The proposed changes were based on the recognition that, while Precept 2 of the 2001 Code broadly requires that all actuaries be qualified “on the basis of basic and continuing education and experience” when performing actuarial services, the then-current Qualification Standards applied only to actuaries who issue PSAOs. The significant changes proposed included replacing the designation of PSAO with the broader designation of Statement of Actuarial Opinion (SAO), which would include any actuarial opinion that is intended to be relied upon by an outside person or organization, thereby significantly expanding the application of the Qualification Standards. The draft also broadened the concept of “practice areas” to address emerging areas such as financial services.

In 2007, the Academy Board approved a major revision to the Qualification Standards, which took effect January 1, 2008. The 2008 standards define an SAO much more broadly than the previous standard:

“For purposes of the Qualification Standards, a Statement of Actuarial Opinion (SAO) is an opinion expressed by an actuary in the course of performing Actuarial Services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed. ‘Actuarial Services’ are defined in the *Code of Professional Conduct* as “Professional services provided to a Principal (client or employer) by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.”

¹² This category has since been expanded to include promulgations by the Cost Accounting Standards Board, the American Institute of Certified Public Accountants, and the Financial Accounting Standards Advisory Board.

The revised standard includes two categories, “General” qualification standards and “Specific” qualification standards. The General qualification standard applies to all types of SAOs issued in the United States, while the Specific qualification standards apply only to the three specific statutory SAOs. Appendix 1 of the Qualification Standards gives examples of opinions that are typically rendered by actuaries and clarifies when a draft report is, and is not, an SAO.

The 2008 Qualification Standards also raised the continuing education requirement from 24 hours over two years to 30 hours of continuing education each year, allowed actuaries to make up continuing education shortfalls and carry over excess continuing education, and clarified that the 30-hour continuing education requirement of the General Qualification Standards includes the continuing education requirement of the Specific Qualification Standards. Of the 30 continuing education hours, at least 6 must be earned through “organized” activities and 3 must be on professionalism topics.

U.S. ACTUARIAL STANDARDS OF PRACTICE

The Academy's 1972 *Guides and Interpretative Opinions as to Professional Conduct* provided only limited direction in the area of actuarial standards of practice. In December of 1972, the American Institute of Certified Public Accountants issued a comprehensive guide relating to audits of stock life insurance companies. This *Audit Guide for Financial Statements of Stock Life Insurance Companies* pointedly raised the need for specific actuarial standards for calculating life insurance reserves and related actuarial values, assuming generally accepted accounting principles (GAAP).

The Academy responded in 1973 and again in 1974 by promulgating *Financial Reporting Recommendations and Interpretations* that provided guidance in selecting actuarial assumptions and methods for stock life insurance company financial statements prepared in accordance with GAAP. The *Interpretations* related largely to the application of the guidance provided in the *Recommendations*. Subsequently, in response to the requirements for an Actuarial Opinion to accompany certain statutory Annual Statements, the Academy promulgated *Financial Reporting Recommendations and Interpretations* dealing with the Actuarial Opinion for life insurance company statutory Annual Statements in 1975 and for fire and casualty insurance company statutory Annual Statements in 1978.

Other broad issues were raised with regard to actuarial standards for pensions, notably as the result of the passage of ERISA in 1974. In 1976, the Academy issued *Pension Plan Recommendations and Interpretations*, in which it was recognized that the wide variety of pension arrangements called for considerable flexibility, coupled with professional expertise.

Additional *Financial Reporting Recommendations and Interpretations* were developed, as the need arose, through the early 1980s and, in 1985, *Dividend Recommendations and Interpretations* were adopted.

For the most part, the *Recommendations and Interpretations* developed during the 1970s and early 1980s were in response to pressures created by external entities, that is, they were reactive rather than proactive. The *Recommendations and Interpretations* were developed independently by Academy committees representing various practice or specialty areas of the profession and the formats adopted differed significantly by practice area. There was no overall mechanism for identifying the need for standards of practice and coordinating their development, review, and revision. Rapidly changing economic conditions, concerns about the adequacy of insurance

company reserves, and new insurance product innovations all contributed to a growing recognition of the need for a better procedure for developing and managing actuarial standards of practice.

In March of 1979, the Academy established the Committee to Study the Requirements of Professionalism and, in July of 1982, authorized the formation of a Task Force on Organizing Professional Standards of Practice. The work done by this task force and other actuarial groups culminated in a proposal to create an Interim Actuarial Standards Board (IASB), similar to the boards set up in other professions. The IASB began functioning in the fall of 1985, with the understanding that its ability to manage the development of standards would be tested; if the test proved fruitful, a permanent, essentially independent, Actuarial Standards Board (ASB) would later be established within the Academy, with representation from each of the U.S.-based actuarial organizations. The IASB satisfactorily demonstrated its ability to develop and manage standards of practice and, on July 1, 1988, through an amendment to the Academy's bylaws adopted by a vote of the membership, the ASB was created as an autonomous entity within the Academy with the sole discretion to promulgate Actuarial Standards of Practice (ASOPs) for practice in the U.S.

The ASB establishes and improves standards of actuarial practice, and its objectives have been detailed as follows:

1. To direct and manage the development of Actuarial Standards of Practice by its operating committees in all areas of actuarial practice.
2. To expose and promulgate Actuarial Standards of Practice within its sole discretion and, pursuant to such procedures, as it deems appropriate, in all areas of actuarial practice.
3. To provide continuous review of existing Actuarial Standards of Practice and determine whether they are in need of amendment, alteration, expansion, or elimination.

The ASOPs developed by the ASB have replaced, restated, or reformatted almost all of the Academy's *Recommendations and Interpretations*.¹³ The ASB has also promulgated new ASOPs

¹³ *Financial Reporting Recommendations 7 and 11* and their respective *Interpretations* remain in effect for Actuarial Opinions rendered in jurisdictions which have not adopted the current version of the *Model Standard Valuation Law* and the *Model Actuarial Opinion and Memorandum Regulation*. *Financial Reporting Recommendation 9* and its *Interpretations* dealing with the application of the concept of materiality to actuarial aspects of the financial reporting of life insurance companies also remain in effect.

where there has been a recognized need. The ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASOPs also provide guidance as to how fundamental concepts and methodological principles should be applied in a variety of circumstances and take into account problems arising from limited information, time constraints, and other practical difficulties, as well as conflicts with regulatory or other restrictions. The ASB's goal is to set standards for appropriate practice for the U.S.

Proposed ASOPs for each area of practice are explored and formulated under the direction of the appropriate operating committee.¹⁴ These committees are encouraged to seek a wide range of ideas and views, such as by consulting other committees within the profession. When the committee has developed a draft, it then must go through a well-defined process of review, approval, exposure, and revision, as set forth in the *ASB Procedures Manual*, before it can be considered for promulgation by the ASB. When creating or revising an ASOP, the ASB

1. reviews and evaluates current and emerging practices;
2. determines appropriate guidance;
3. publishes an exposure draft to obtain input from actuaries and other interested parties;
4. considers all comments received; and
5. publishes a final standard or another exposure draft.

Public hearings can also be held if deemed advisable by the ASB. The ASB is the final authority in the matter of standards of actuarial practice and is responsible to the membership of the American Academy of Actuaries rather than to the Board of Directors of the Academy.

For purposes of consistency, all ASOPs follow a similar format and structure that is also set forth in the *ASB Procedures Manual*. The ASB has recognized that there are situations where actuarial work is done in response to controlling regulatory bodies or other professional organizations that have established rules or requirements that are not in accordance with generally accepted actuarial principles and practices, or that prevent an actuary from applying professional judgment. To deal separately with these situations, ASOPs provide recommended practices where actuarial principles and practices can be followed and recommended compliance procedures where contrary rules or requirements must be observed.

¹⁴ The current operating committees of the ASB are the Casualty Committee, Enterprise Risk Management Committee, General Committee, Health Committee, Life Committee, and Pension Committee. The General Committee is responsible for ASOPs that are applicable to all or most areas of practice.

U.S. ACTUARIAL DISCIPLINARY PROCEDURES

The bylaws of the Academy and similar regulations of the other U.S.-based actuarial organizations have historically included articles that spelled out in detail under what circumstances and how members could be disciplined for violations of the standards of conduct of that organization.¹⁵ The standards of conduct of each organization have also specified the standards of qualification and practice, if any, that members were obligated to follow.¹⁶

The authority to investigate, consider, and act on violations of professionalism standards was generally vested in the discipline committee of each organization of which the actuary was a member. Because of the overlapping of actuarial organization memberships in the U.S. and the historical lack of uniformity of their standards of professional conduct, this frequently resulted in significant replication of the time and expense of investigation of alleged violations and disparate conclusions. The requirements of confidentiality imposed on these discipline committees by their organizations essentially prevented the sharing of investigative results among the organizations.

Complaints of alleged violations had to be directed to each organization of which the actuary was a member. This often proved confusing to the public and regulators and, in some cases, resulted in a complaint being filed with only one of the several organizations to which the actuary belonged. Generally, there were no formal procedures for counseling an actuary in the case of immaterial or inadvertent infractions of professionalism standards. An actuary with a question relative to the proper application of professionalism standards in a particular situation was usually referred to the committee responsible for developing such standards. Also, there were no mechanisms available to help settle disputes that might arise between actuaries or between actuaries and their clients.

Acting on a recommendation in the June 1990 report of the Council of Presidents' Joint Task Force on Actuarial Professionalism, the Academy issued a discussion memorandum in January

¹⁵ The Constitution of the American Society of Actuaries was amended in 1907 to add an article entitled "Expulsion or Suspension of Members," which contained provisions that are similar to those of current discipline provisions.

¹⁶ The *Annotations to Precepts 2 and 3* of the current 2001 Code specify that the actuary must observe applicable standards of qualification and practice for the jurisdiction where the actuary renders actuarial services. For actuaries practicing in the U.S., these would be the Academy's Qualification Standards and the ASB's Actuarial Standards of Practice.

of 1991, proposing to amend its bylaws to create an Actuarial Board for Counseling and Discipline (ABCD) to address alleged violations resulting from actuaries performing services in the United States. Based upon the comments received, the membership of the Academy adopted the revised amendment and the ABCD was created, effective January 1, 1992.

The ABCD was structured as an autonomous entity within the Academy, similar to the ASB. It was charged with the responsibility to consider alleged violations of the standards of conduct of a participating actuarial organization by one of its members, to offer remedial counseling to the actuary, and, when necessary, to recommend disciplinary measures to the actuary's member organizations. It was also given the responsibility to serve as ombudsman in the resolution of disputes involving actuaries.

Each of the five U.S.-based actuarial organizations amended their constitutions and/or bylaws to delegate these functions to the ABCD, and the ABCD inherited 22 pending discipline cases from these organizations.

Based on the experience gained from the initial years of operation of the ABCD, the Bylaws of the Academy were amended, effective January 1, 1999, to expand and refine the responsibilities and operations of the ABCD. The ABCD is currently charged with the following responsibilities:

1. To consider all complaints concerning alleged violations or information suggesting possible violations of the applicable Code(s) of Professional Conduct and all questions that may arise as to the conduct of a member of a participating actuarial organization in the member's relationship to the organization or its members, in the member's professional practice, or affecting the interests of the actuarial profession.
2. To counsel actuaries concerning their professional activities related to the applicable Code(s) of Professional Conduct in situations where the ABCD deems counseling appropriate.
3. To recommend a disciplinary action with respect to an actuary to any participating organization of which the actuary is a member.
4. To mediate issues between members of participating actuarial organizations, or between such members and the public, for the purpose of informally resolving issues concerning the professional conduct of such members.

5. To respond to requests for guidance regarding professionalism from members of the participating organizations.

The Rules of Procedure for the ABCD are established by the ABCD in conformity with the requirements of the Academy Bylaws. They set forth in some detail the manner in which the ABCD operates and are available on the ABCD website or through the Academy office. These procedures place emphasis on due process and confidentiality and identify the steps to be followed from the initial receipt of a complaint through final disposition, including preliminary reviews, investigative procedures, reports, hearings, legal representation, evidence, and adjudication.

It should be emphasized that the ABCD, despite its name, is not empowered to discipline actuaries, only to make recommendations as to the type of discipline to be imposed by the organizations of which the actuary is a member. When a recommendation for discipline has been made by the ABCD to one of the organizations, the final adjudication of discipline, if any, is made in accordance with the procedures set forth in that organization's constitution or bylaws, usually administered through its committee on discipline.

Following the receipt of a complaint, in accordance with the Academy Bylaws and the Rules of Procedure, the ABCD has three options available that are not considered disciplinary:

1. **Dismissal of Complaint:** If, after initial evaluation, the ABCD concludes that the complaint does not involve a material violation of professionalism standards or, upon investigation or investigation and hearing, the ABCD determines that a material violation of the professionalism standards has not occurred.
2. **Counseling:** If the ABCD finds, upon investigation, or upon investigation and hearing, that an actuary has not fully complied with applicable professionalism standards, but concludes that remediation is more appropriate than discipline.
3. **Referral to Mediator:** If, after initial review, a case appears to present a dispute rather than a material violation of professionalism standards.

The ABCD, only after investigation and hearing, may recommend to the actuary's membership organization(s) that the actuary be disciplined. The member's organization then determines

whether to accept and implement the recommendation of the ABCD or some other form of discipline. The ABCD has four forms of discipline that it may recommend:¹⁷

1. **Private Reprimand:**¹⁸ The actuary is privately rebuked by the actuary's membership organization on a confidential basis.
2. **Public Reprimand:** The actuary is publicly rebuked by the actuary's membership organization with notification being given to the membership and others as appropriate.
3. **Suspension:** The actuary is suspended from the membership for a period of time, subject to conditions, if any, the membership organization may impose for reinstatement with notification being given to the membership and others as appropriate.
4. **Expulsion:** The actuary is permanently deprived of membership in the organization with notification being given to the membership and others as appropriate.

The ABCD places significant emphasis on the counseling aspect of its functions, especially as an alternative to a recommendation of discipline for immaterial or inadvertent violations of the professionalism standards. This function, as administered by the ABCD, is of value to both the subject actuary and to the profession as a whole. A second valuable aspect of the counseling function is to be found in the provision that actuaries may make formal requests to, and receive confidential guidance from, the ABCD as to the applicability of professionalism standards in a particular situation or set of circumstances.

Because of the requirements of confidentiality, the ABCD cannot provide details to the actuarial membership, regulators, or the public on any cases nor can it identify the individual actuaries who have had complaints filed against them. However, to provide an insight into the number, classification, status, and final disposition of cases that the ABCD has received, it publishes such statistics annually.

¹⁷ If the ABCD believes that it would be beneficial, it may also counsel the actuary for whom discipline is recommended.

¹⁸ This option is available only if permitted by the membership organization's constitution or bylaws.

RELATIONSHIPS OF THE U.S. ACTUARIAL PROFESSION WITH OTHER PROFESSIONS, ORGANIZATIONS, AND PUBLIC POLICYMAKERS

Actuaries have long maintained close relationships with other professions. As far back as 1883, an actuary and an accountant formed a partnership that produced the first accounting firm in the United States. In many areas, business organizations have come increasingly to depend on multidisciplinary teams, involving several professions. Actuaries are now employed by accounting firms, management consultants, providers of health services, banks, and investment firms. They are working, among others, with lawyers in framing insurance contracts and pension documents; with physicians in evaluating medical risks; with statisticians on developing mortality, morbidity, and other rates of hazardous events; and with computer scientists in adapting programs for insurance, pensions, and other financial security systems.

Questions have been raised as to appropriate role(s) of the actuary as a partner, employee, or more generally, a subordinate in organizations directed by non-actuaries. Actuaries who are subject to pressure from their partners or employers may find themselves in awkward situations. They can often resolve such conflicts in the light of the principle that their primary responsibility is to their profession. When there is an overlap with similar responsibilities of other professionals, the issues usually can be approached without requiring any of the collaborating professionals to compromise their professionalism standards. The discussion paper *Actuaries' Relationships with Users of a Work Product*, developed by the Academy's Committee on Professional Responsibility, offers additional, nonbinding guidance in this area.

Actuaries may experience some difficulties with other professionals because they may be misperceived as members of a profession engaged in providing advice based on somewhat esoteric knowledge and skills. It can be beneficial for actuaries to cultivate the art of communication, both written and oral, in order to be better understood. The growth of new professions and sub-professions may result in activities overlapping those of actuaries, so that the actuarial profession is well advised to delineate the areas of actuarial proficiency to the general public. Specific standards of practice covering such borderline areas of actuarial activity can be most helpful for this purpose.

The U.S. actuarial profession is often called upon to provide its expertise to public policymakers at both the state and federal level through the National Association of Insurance Commissioners, the state insurance departments, Congress, the Internal Revenue Service, the Department of Labor, other regulatory bodies, and the courts. In the United States, the Academy (and, together with the American Society of Pension Professionals and Actuaries in the pension area) fulfills this function, analyzing proposed laws and regulations and, as appropriate, explaining the nature of actuarial science and the work actuaries perform. The Academy also represents the U.S. actuarial profession in discussions with groups representing other professions, for example, the American Institute of Certified Public Accountants, as well as standard-setters for other professions such as the Financial Accounting Standards Board. The Academy's activities in this area help other professions understand the nature of actuarial work.

THE COUNCIL ON PROFESSIONALISM AND U.S. ACTUARIAL PROFESSIONALISM

In 1991, the Academy elected its first Vice President for Professionalism to oversee the operations of the various Academy committees that dealt with professionalism issues. In 1992, the Academy established the Council on Professionalism to “coordinate Academy activities in the field of professionalism, and [to] perform such other responsibilities as the Board of Directors may, from time to time, direct.” The Council was originally fairly small, chaired by the Vice President for Professionalism, and consisting of the chairs of the Academy’s committees and task forces active in professionalism (for example, the Committee on Qualifications and the Committee on Professional Responsibility), the chair of the Joint Committee on the Code of Professional Conduct, the Chair of the Actuarial Board for Counseling and Discipline, and the chair of the Actuarial Standards Board. (The latter two chairs serve as liaison representatives, recognizing that both the ABCD and the ASB are autonomous entities serving not only the Academy, but the entire U.S. actuarial profession). The Committee on International Issues was later brought under the auspices of the Council as the Academy became more active in professionalism issues at the international level through the International Actuarial Association.

Shortly after the Council was established, liaisons to the American Society of Pension Professionals and Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries were added to facilitate coordination of the professionalism activities of all of the U.S.-based organizations representing actuaries. Most recently, the Council was further augmented with liaisons to the Academy’s Practice Councils. These liaisons were added to ensure that professionalism issues are appropriately addressed when the Academy deals with public policy issues and that the Council on Professionalism is made aware when professionalism issues arise in the public policy arena.

The Council’s mission statement, most recently revised in 2004, is to “foster and reinforce members’ desire to maintain professionalism in their daily practice and to provide members with the tools to do so.” To that end, the Council, through its boards, committees, and task forces, maintains the U.S. profession’s Code of Professional Conduct and Qualification Standards, publishes discussion papers on various aspects of actuarial professionalism, publishes Applicability Guidelines and Practice Notes to assist actuaries in applying the Actuarial Standards of Practice to particular professional assignments, develops seminars on areas of actuarial practice involving significant professionalism content in the context of U.S. regulation,

develops and presents sessions on professionalism topics at actuarial meetings, works within the Academy to represent the U.S. profession to public policy makers when dealing with professionalism issues, and represents the Academy and the U.S. profession when addressing professionalism issues in the international context.