

ACTUARY-TO-ACTUARY COMMUNICATION



AMERICAN ACADEMY of ACTUARIES

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Agenda

- Introduction
- Precept 10
- Precept 13
- Case Studies
- Concluding Thoughts
- Q&A



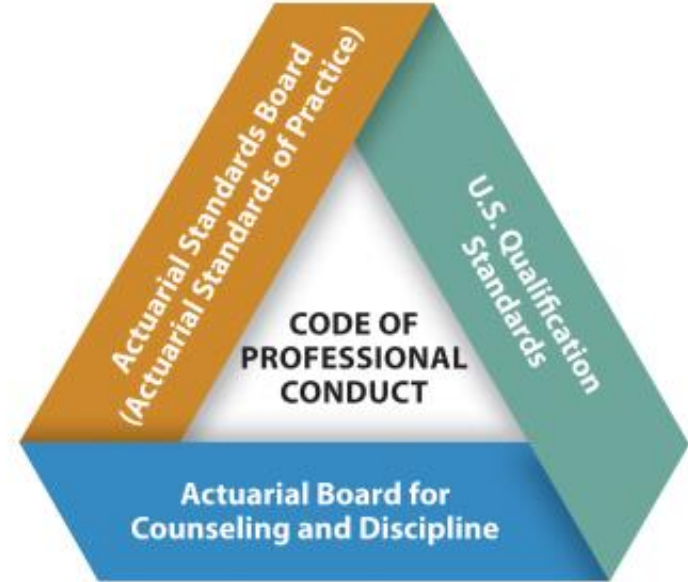
Introduction



The Web of Professionalism

The Basis of Self-Regulation of the U.S. Actuarial Profession

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



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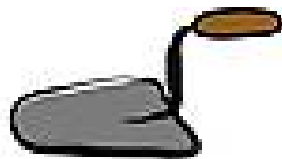
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Why Does It Matter?

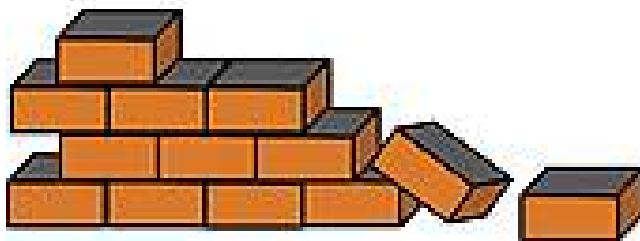
Our standards and disciplinary process are necessary to assure the public that we can, as a profession, be trusted. They are why the Academy was created, and are necessary for U.S. actuaries to be recognized as a self-regulating profession.



Actuary-to-Actuary Communication



Communication



Building Blocks of Professionalism



Actuarial Standards of Practice



ASOPs provide guidance on the techniques, applications, procedures, and methods that reflect appropriate actuarial practices in the United States.



Importance of Communication

“ASOPs...recognize that actuaries can reasonably reach different conclusions when faced with the same facts” ...

—ASOP No. 1



ASOP No. 41:

Actuarial Communications



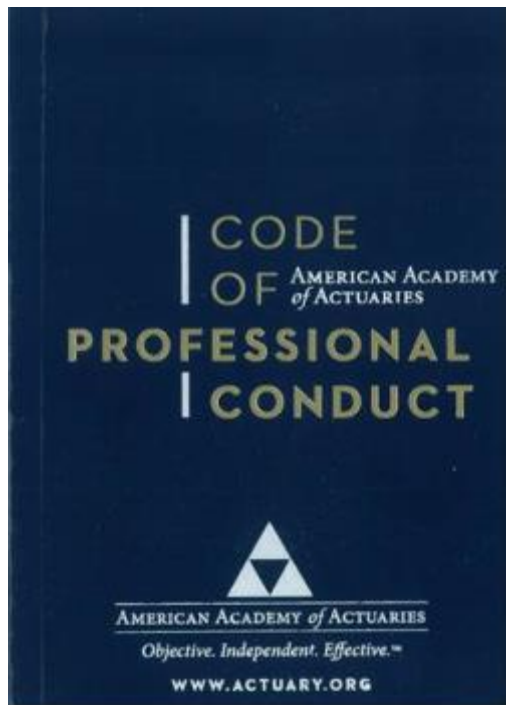
State actuarial findings

Identify methods,
procedures, assumptions

Objective appraisal by
qualified actuary



It All Starts With the Code



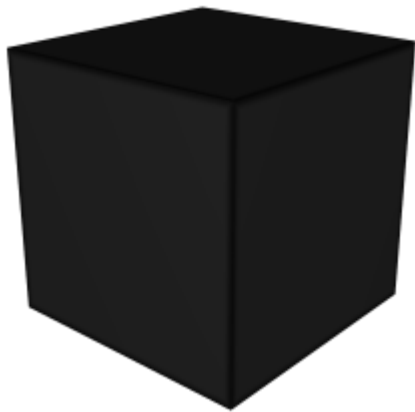
“The *Code of Professional Conduct* sets forth what it means for an actuary to act as a professional. It identifies the responsibilities that actuaries have to the public, to their clients and employers, and to the actuarial profession.”

Precept 4: Communications

“An Actuary who issues an Actuarial Communication shall take appropriate steps to ensure that the Actuarial Communication is clear and appropriate to the circumstances and its intended audience, and satisfies applicable standards of practice.”



Breaking the Language Barrier



The Black Box



The Glass Box

Actuaries should make things clearer



Precept 8: Control of Work Product

“The Actuary
should... take
reasonable steps to
present the Actuarial
Communication
clearly and fairly.”

—Annotation 8-1

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Precept 10: Courtesy and Cooperation

The “Golden Rule” of the Actuarial Profession

- ▣ Courtesy
- ▣ Professional Respect
- ▣ Cooperation with others in Principal’s interest



Precept 10: Courtesy and Cooperation

- Differences of Opinion
 - May arise particularly with respect to assumptions and methods



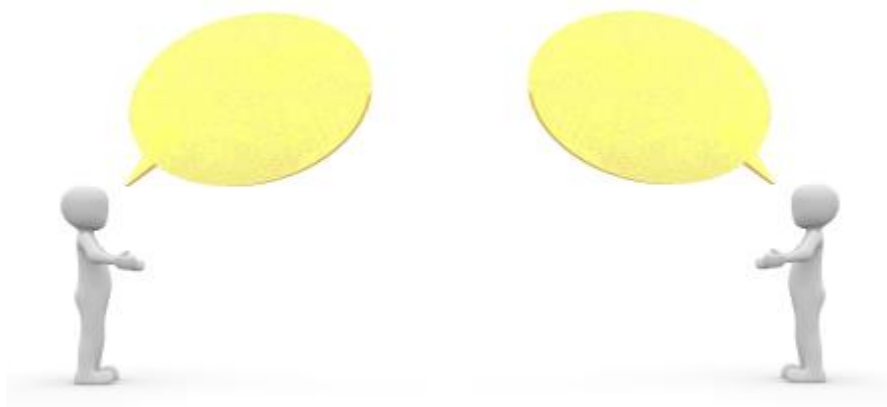
Precept 10: Courtesy and Cooperation

- Discussions about differences of opinion between actuaries, or in making comments after observing another actuary, should be conducted
 - objectively,
 - with courtesy and respect, and
 - in a straightforward manner.



Precept 10: Courtesy and Cooperation

- It may be difficult to start up a discussion if there are differences but it's important to do so.
- Perhaps start by referencing ASOP No. 1, which says that actuaries can reach different but reasonable results using the same set of facts.



Precept 10: Courtesy and Cooperation

Principals have right to pick the actuary, and the actuary has the right to work for any Principal they choose to work for, even if that Principal had been served previously by another actuary.



Precept 10: Courtesy and Cooperation

- Expectation of behavior toward the Principal and successor include the “4 C’s”:
 - communication
 - cooperation
 - confidentiality
 - compensation
 - can’t refuse because of unresolved compensation issues



Precept 10: Courtesy and Cooperation

Expectation of behavior toward a Regulator or an Auditor also includes communication and cooperation.



Precept 10: Courtesy and Cooperation

- Alternative course(s) of actions may be in the best interest of a Principal.
- Such an alternative course of action should be presented with an explanation of the reasons why.
- The code in no way limits the actuary from expressing an alternative opinion.

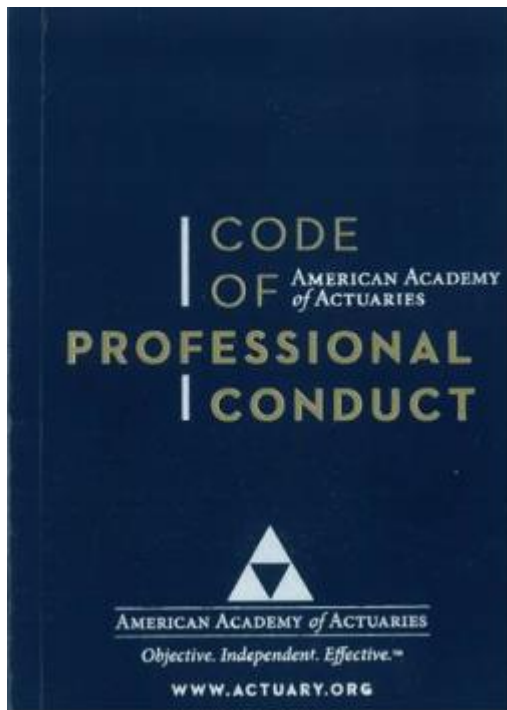


Precept 10: Courtesy and Cooperation

When providing advice to a Principal who has previously employed another actuary to do the same work, the new actuary may wish to consult with the previous actuary to adequately prepare for the assignment.



Precept 10: Courtesy and Cooperation



Objectives for the consultation also include being adequately prepared to make an informed opinion regarding possible violations of the Code that may affect acceptance of the assignment.

Precept 10: Courtesy and Cooperation

- The new actuary should get permission from the Principal to consult with the previous actuary.
- The former actuary shall cooperate in furnishing relevant information and in a timely fashion, even if there's a fee dispute with the Principal.
- Reasonable compensation for the work or costs in producing such work is appropriate.



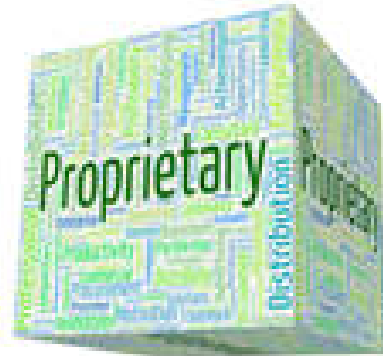
Precept 10: Courtesy and Cooperation

Pre-existing agreements may prevent such consultation and cooperation.



Precept 10: Courtesy and Cooperation

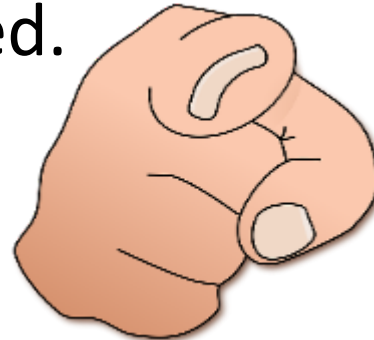
The Actuary does not have to provide proprietary information, e.g. internal communications or computer programs.



Precept 13:

Violations of the Code of Professional Conduct

- ❑ Precept 13 is another key to an independent self regulating profession.
- ❑ All of us are the regulators.
- ❑ Shared responsibility to each other and the public.
- ❑ Good faith efforts are needed.



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Precept 13:

Violations of the Code of Professional Conduct

- Apparent, unresolved, material violations of the Code
 - First step – contact the other actuary if possible.
 - Try to resolve the issue.
 - If unable to resolve – report to the ABCD subject to confidentiality or client issues.



Precept 13:

Violations of the Code of Professional Conduct

- What constitutes “resolution”?
- Examples:
 - Make a report to client.
 - Make changes to correct error and reissue report.
 - Change the process for future work.
- You have to make a professional judgement as to resolution.



Precept 13:

Violations of the Code of Professional Conduct

- Further discussion of key concepts can be found on the Academy website.
- Professionalism Discussion Paper
 - “The Application of Precept 13 of the Code of Professional Conduct”
- “Up to Code” column in *Contingencies*



Precept 13:

Violations of the Code of Professional Conduct

- ❑ The ABCD is here to help you at any point in your work or in your discussion that you need to talk about the issues.
- ❑ Discussion will be confidential.
- ❑ Guidance is available.



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Precept 10 Issues



- Many Precept 10 issues have come before the ABCD.
- Requests for Guidance are the most common source.
- Some examples of common issues I have seen...



Precept 10 Issues

- Timeliness of Communications
- Sharing of information
 - Transfer of data
 - Previous report and workpapers
 - Sufficient details so work can be reproduced



Precept 10 Issues

- Disclosing all material assumptions
- Proprietary software, either owned or licensed
- Additional work required
 - How much is reasonable?
 - Is raw data or scrubbed data transferred?
 - Is payment required for the work, by whom?



Case Study 1: The Replaced Actuary

You are a consulting Actuary. Recently your pension client has informed you that you are being replaced for unspecified reasons by another consulting Actuary. You have received a call from the new consulting Actuary asking for:

- A. The previous 3 years of reports that you provided to your client
- B. Your work papers supporting your Actuarial work for the client for the past 3 years

You viewed the report as a confidential communication with your client.



Case Study 1: The Replaced Actuary

- A. What are your obligations to the actuary and to your former client regarding providing the report to the new actuary?
- ▣ What about proprietary systems?
 - ▣ What about input, output, and assumptions other than the software?
 - ▣ The data you used, which you spent considerable time scrubbing, is voluminous. Would you be required to give that to the new actuary?



Case Study 1: The Replaced Actuary

- B. What compensation do you expect for providing the information to the new actuary and for the ensuing discussions with the new actuary?
- C. What if the client still owes you money for the work you did? Does that impact the answer?



Case Study 1: The Replaced Actuary

- D. What level of work are you expected to undertake to fulfill requests from the new actuary?
- E. Many assumptions were used in your work...some fairly insignificant. What level and background for the assumptions must you provide?



Case Study 2: New Assignment

- You are an actuary at a large life insurance company. Recently, due to restructuring, you have new responsibilities in the Financial Reporting / Valuation area reporting to the Appointed Actuary.
- The actuary who previously had these responsibilities is well-respected in the company and had been in this position for seven years. The actuary has been moved to the Product Development area.



Case Study 2: New Assignment

- As you assume your new responsibilities, you are particularly interested in understanding the reserving and testing for the universal life with secondary guarantees (ULSG) business. You are aware of Actuarial Guideline 38 and discuss the reserving and testing with the previous actuary.
- It appears to you that a number of shortcuts and simplifications have been used by this experienced actuary to complete the analysis that you are not totally comfortable with.



Case Study 2: New Assignment

- A. What are your responsibilities in communicating your concerns to:
 - i. The previous actuary
 - ii. The Appointed Actuary (your boss)
- B. In discussing these issues with you, what are the responsibilities of:
 - i. The previous actuary
 - ii. The Appointed Actuary



Case Study 3: Precept 13 Implications

- You have reviewed the work of another actuary in the course of work for the same client. You found that there were significant computational errors as well as highly aggressive assumptions in the report.
- Upon making your own determination of the valuation, there was a difference of 32%, which is material to the company's solvency position.



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Case Study 3: Precept 13 Implications

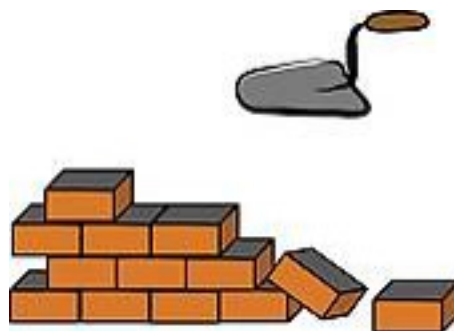
- What should be your first step?
- If you cannot resolve the difference what should you do?
- When, and by who, should the client be told?
- Is this a reportable issue?



Concluding Thoughts



Web of Professionalism



Communication:
Building Blocks of Professionalism



ASOPs



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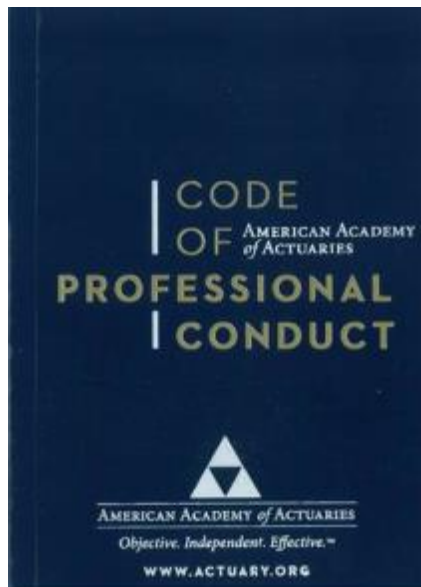
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Concluding Thoughts (ASOPs)



- Reach different conclusions – ASOP #1
- Objective appraisal by qualified actuary – ASOP # 41

Concluding Thoughts (Code)



Start with the Code



Clear Communications:
Precepts 4 & 8



The Glass Box

Concluding Thoughts (Precept 10)



- Golden Rule
- Differences of Opinion
- Courtesy and Cooperation



Concluding Thoughts (Precept 10)



Principal may pick the actuary

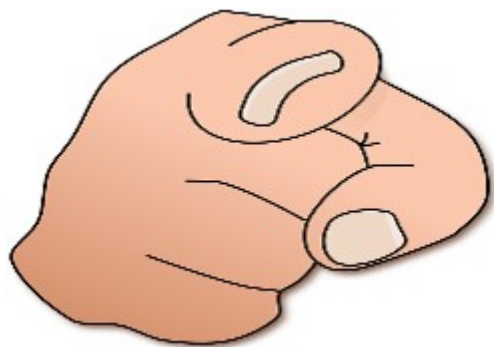


Alternate courses of action



Consult with previous actuary

Concluding Thoughts (Precept 13)



Self-Regulation



Resolution



Role of ABCD

Concluding Thoughts (Precept 10)



- Sharing Information
- Disclosing Information



Professionalism in Practice



Questions?



Precept 10: Courtesy and Cooperation

- **PRECEPT 10.** An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.
- **ANNOTATION 10-1.** Differences of opinion among actuaries may arise, particularly in choices of assumptions and methods. Discussions of such differences between an Actuary and another actuary, or in observations made by an Actuary to a Principal on the work of another actuary, should be conducted objectively and with courtesy and respect.



Precept 10: Courtesy and Cooperation

- ANNOTATION 10-2. A Principal has an indisputable right to choose a professional advisor. An Actuary may provide service to any Principal who requests it, even though such Principal is being or has been served by another actuary in the same matter.
- ANNOTATION 10-3. An Actuary in the course of an engagement or employment may encounter a situation such that the best interest of the Principal would be served by the Actuary's setting out an alternative opinion to one expressed by another actuary, together with an explanation of the factors that lend support to the alternative opinion. Nothing in the Code should be construed as preventing the Actuary from expressing such an alternative opinion to the Principal.



Precept 10: Courtesy and Cooperation

- ANNOTATION 10-4. An Actuary may be requested to advise a Principal for whom the Actuary knows or has reasonable grounds to believe that another actuary has provided, or is providing, Actuarial Services with respect to the same matter. In such event, the Actuary may choose to consult with such other actuary both to prepare adequately for the assignment and to make an informed judgment as to whether there are circumstances involving a potential violation of the Code that might affect acceptance of the assignment. The Actuary should request the Principal's consent prior to such consultation.



Precept 10: Courtesy and Cooperation

- ANNOTATION 10-5. When a Principal has given consent for a new or additional actuary to consult with an Actuary with respect to a matter for which the Actuary is providing or has provided Actuarial Services, the Actuary shall cooperate in furnishing relevant information, subject to receiving reasonable compensation for the work required to assemble and transmit pertinent data and documents. The Actuary shall not refuse to consult or cooperate with the prospective new or additional actuary based upon unresolved compensation issues with the Principal unless such refusal is in accordance with a pre-existing agreement with the Principal. The Actuary need not provide any items of a proprietary nature, such as internal communications or computer programs.



Precept 13:

Violations of the Code of Professional Conduct

- **PRECEPT 13.** An Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary should consider discussing the situation with the other Actuary and attempt to resolve the apparent violation. If such discussion is not attempted or is not successful, the Actuary shall disclose such violation to the appropriate counseling and discipline body of the profession, except where the disclosure would be contrary to Law or would divulge Confidential Information.



Precept 13:

Violations of the Code of Professional Conduct

- ANNOTATION 13-1. A violation of the Code is deemed to be material if it is important or affects the outcome of a situation, as opposed to a violation that is trivial, does not affect an outcome, or is one merely of form.
- ANNOTATION 13-2. An Actuary is not expected to discuss an apparent, unresolved material violation of the Code with the other Actuary if either Actuary is prohibited by Law from doing so or is acting in an adversarial environment involving the other Actuary.

