

The Anatomy of the ASOPs



October 17, 2018

Sponsored by the Academy's Council on Professionalism and co-sponsored by
ACOPA, CAS, CCA, and SOA

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Disclaimer

Please note: The presenters' statements and opinions are their own and do not necessarily represent the official statements or opinions of the ABCD, ASB, any boards or committees of the American Academy of Actuaries, or any other actuarial organization, nor do they express the opinions of their employers.



Agenda

I. Introduction

II. The Heart of the Matter: The Code, the ASB, and the ASOPs

III. Fitting Together Nicely: The Bones of the ASOPs

- ▣ The Structure of the ASOPs
- ▣ ASOP No. 1: Rules of the Road and Key Definitions
- ▣ Actuarial Communications

IV. The Muscles of the ASOPs: Disclosure, Reliance, and Deviations

V. Brain Food: Resources to Help You Use the ASOPs



The Heart of the Matter

The Code, the ASB, and the ASOPs



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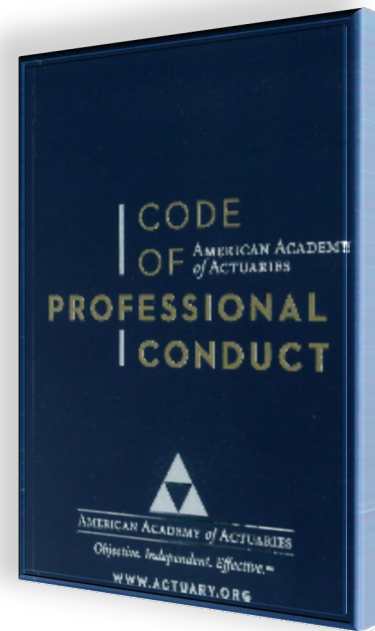
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It All Starts With the Code

“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.”

- ▣ Preface, Code of Professional Conduct



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Standards of Practice

Precept 3

An Actuary shall ensure that Actuarial Services performed by and under the direction of the Actuary satisfy applicable standards of practice.



The screenshot displays the Actuarial Standards Board (ASB) website. At the top is the ASB logo and the text "ACTUARIAL STANDARDS BOARD". Below this is a navigation bar with links: "ALL STANDARDS", "PENSION", "LIFE", "HEALTH", "GENERAL", "ERM", and "CASUALTY". The main content area features three columns, each representing an Actuarial Standard of Practice (ASOP). Each column has an orange header with the ASOP number, a title, a category, an effective date, a status, and a link to "View | Download PDF".

ASOP 1	ASOP 2	ASOP 3
Introductory Actuarial Standard of Practice	Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts	Continuing Care Retirement Communities
Category: General	Category: Life	Category: Health
Effective Date: June 01, 2013	Effective Date: September 30, 2004	Effective Date: March 01, 2008
Status: Adopted	Status: Adopted	Status: Adopted
View Download PDF	View Download PDF	View Download PDF



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Reasons for Development of ASOPs

- Actuaries must effectively regulate ourselves to
 - ▣ Protect the public;
 - ▣ Protect the reputation of the profession;
 - ▣ Avoid or reduce risk of external regulation; and
 - ▣ Provide a defense against charges of bad practice.



Standards of Practice—Background

- 1970s—First standards issued, but...
 - ▣ No comprehensive body of standards
 - ▣ Not regularly reviewed and updated
- 1980s—Realization that the profession needs a more robust body of standards of practice

“Unlike other professions such as accounting, law, and medicine, we actuaries at present have no defined, comprehensive standards of practice.”

—Norman Crowder, Academy President 1983–84



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Goals for a Standards Body

- Actuarial standards of practice (ASOPs) should be
 - ▣ exposed for comment;
 - ▣ continually reviewed, and revised or repealed when appropriate;
 - ▣ developed to reflect advances in practice; and
 - ▣ comprehensive by area of practice.



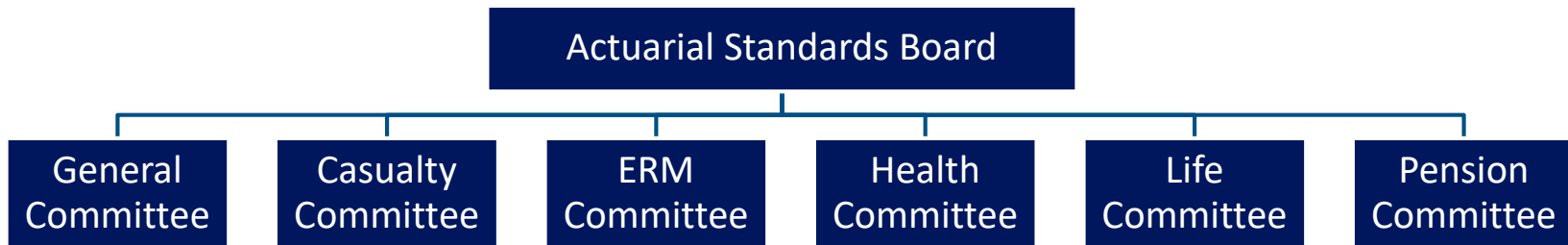
Establishment of the Standards Body

- In 1985, the Academy established an interim standards board.
- In 1988, this was succeeded by a permanent standards board.

The Actuarial Standards Board (ASB) is celebrating
30 years of standards setting!
54 ASOPs adopted to date!

Structure of the ASB

- The ASB has nine members who are broadly representative of all areas of actuarial practice.
- ASB members play a standards-setting role, not an advocacy role, and serve the profession rather than any individual interest groups or coalitions.



Standard-Setting Principles

- ❑ ASOPs provide guidance for **appropriate practice**, not merely codify current practice or best practice.
- ❑ ASOPs set principles to guide actuaries and users of actuarial services, but do not replace **professional judgment**.
- ❑ ASOPs should apply as broadly as possible.
- ❑ Disclosure is a cornerstone of compliance with standards.



Process for Developing ASOPs

- Receive proposal for new or revised ASOP
- *Optional: Issue request for comments, discussion draft, or public hearing*
- Develop exposure draft
- Issue exposure draft for comment
- Develop final standard
- Adopt final standard



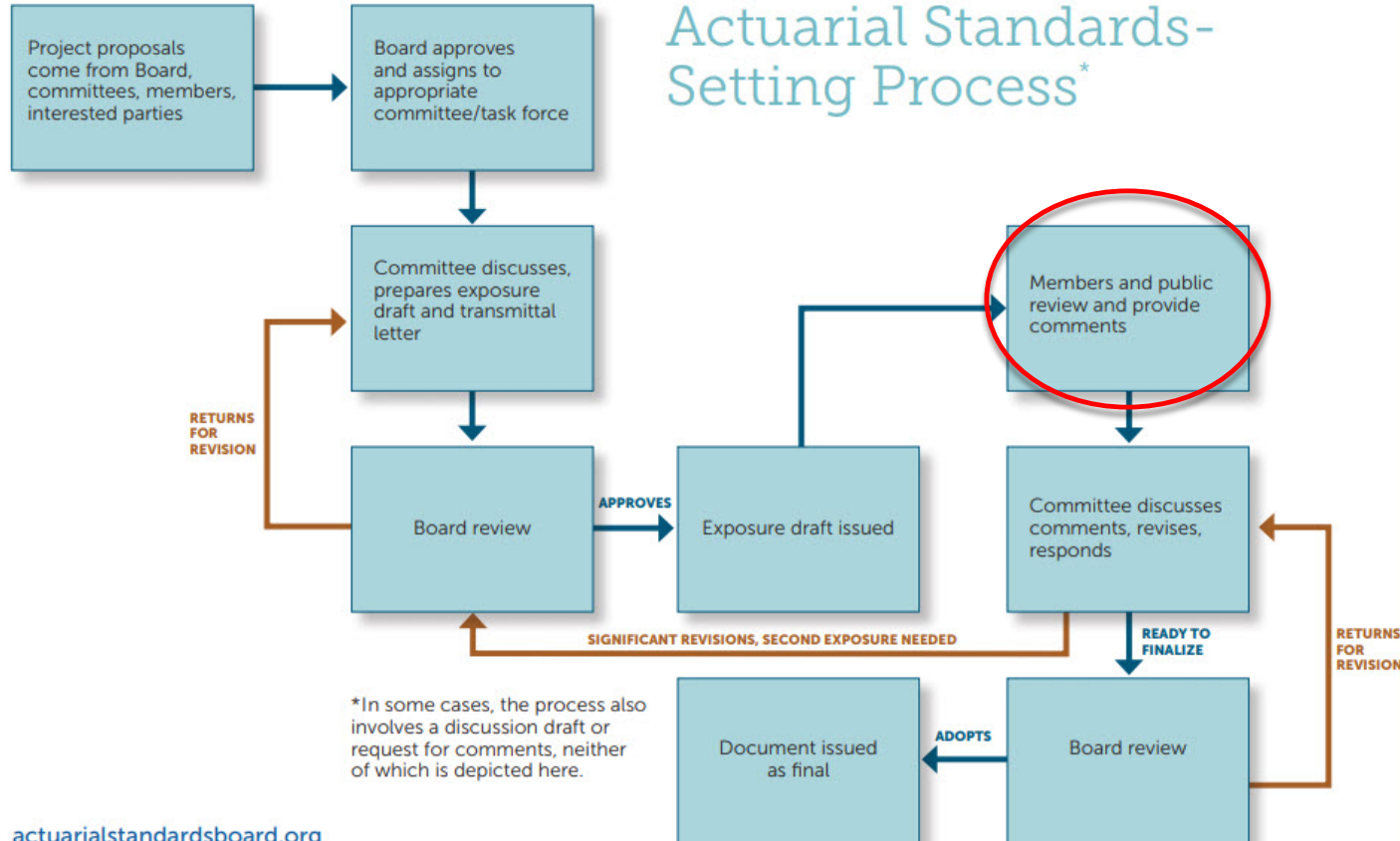
Input for New or Revised ASOP

- ❑ ASB requests standing committee or task force to provide input.
- ❑ Anyone interested can provide input to the ASB.
- ❑ ASB can issue request for comments.
- ❑ ASB can approve release of a discussion draft developed by committee/task force (ASB does not approve/adopt discussion draft).
- ❑ ASB chair can authorize public hearing.





Actuarial Standards-Setting Process*



ASOPs—Structure and Current Activity

Cross-Practice ASOPs

ASOP No. 1—Introductory ASOP			
ASOP No. 41—Actuarial Communications			
ASOP No. 12	Risk Classification	ASOP No. 23	Data Quality
ASOP No. 17	Expert Testimony by Actuaries	ASOP No. 25	Credibility Procedures
ASOP No. 21	Responding to or Assisting...	Exposure	Modeling
ASOP No. 32	Social Insurance	Exposure	Setting Assumptions

Practice-Specific ASOPs

Casualty

ASOP Nos. 13,
19, 20, 29, 30,
36, 38, 39, 43,
53

ERM

ASOP Nos.
46, 47

CAA

Health

ASOP Nos. 3, 5,
6, 8, 11, 18, 19,
22, 26, 28, 42,
45, 49, 50

Life

ASOP Nos. 2, 7,
10, 11, 15, 19,
22, 24, 33, 37,
40, 48, 52, 54

Pension

ASOP Nos. 4,
6, 27, 34, 35,
44, 51

Discussion



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Fitting Together Nicely

The Bones of the ASOPs



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The Structure of Each ASOP

- Transmittal Letter
- Section 1: Purpose and Scope
- Section 2: Key Terms
- Section 3: Analysis of Issues and Recommended Practices
- Section 4: Communications and Disclosures
- Appendix 1: Background and Current Practices
- Appendix 2: Comments on the Exposure Draft and Responses



ASOP No. 1 and the Rules of the Road

- ❑ Establishes a roadmap for interpreting ASOPs
- ❑ Provides important guidance for the exercise of professional judgment in applying all other ASOPs
- ❑ Provides the analytical framework that pairs professional judgment with principle-based standards



ASOP No. 1—Key Provisions

- ❑ Establishes common terminology, such as use of “may,” “must,” and “should”
- ❑ Sets out the purpose of ASOPs: identifies what should be considered, done, documented, and disclosed when rendering actuarial services
- ❑ Provides guidance for compliance with ASOPs
- ❑ Applies to all other ASOPs



ASOP No. 1—Key Terms Explained

- ❑ **Must**—The actuary is unlikely to have any reasonable alternative but to follow the course of action (infrequently used)
- ❑ **Should**—Indicates what is normally the appropriate practice for an actuary to follow when rendering actuarial services
- ❑ **Should Consider**—Suggests potential courses of action. If, after consideration, in the actuary's professional judgment, action is not appropriate, then it is not required
- ❑ **May**—The course of action is one that would be considered reasonable and appropriate in many circumstances



ASOP No. 1—Key Terms Explained

- ❑ **Actuarial Services**—Professional services provided to a principal by an individual acting in the capacity of an actuary
- ❑ **Material**—An item is material if its omission or misstatement could influence a decision of the intended user
- ❑ **Practical/practicable**—Describes a course of action that is likely to yield an appropriate result without being unnecessarily time-consuming, elaborate, or costly relative to the principal's needs



ASOP No. 1—Key Terms Explained

- **Professional judgment**—Judgment based on actuarial knowledge, training, and experience
- **Reasonable**—Describes the level of care that, in the actuary's professional judgment, is necessary to complete the assignment in an appropriate manner



Actuarial Communications

- The Code of Professional Conduct
- ASOP No. 41, *Actuarial Communications*
- Practice-specific ASOPs



The Code of Professional Conduct

- **“Precept 4.** 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.”** (emphasis added)



ASOP No. 41—Forms of Actuarial Communication

- “The actuary should take appropriate steps to ensure that the form and content of each actuarial communication are appropriate to the particular circumstances, taking into account the intended users.”
- Applies to both oral and written communications
- “Where the actuary has a concern that the oral communication may be passed on to other parties, the actuary should consider following up with an actuarial document.”



ASOP No. 41—Actuarial Report

- “The actuary should complete an actuarial report if the actuary intends the actuarial findings to be relied upon by any intended user.”
- Can consist of more than one document
- Should “identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work as presented in the actuarial report”



ASOP No. 41—Intended Users

- ❑ Disclose the intended users, defined as, “Any person who the actuary identifies as able to rely on the actuarial findings”
- ❑ Recognize the risks of misquotation, misinterpretation, or other misuse of such a document
- ❑ Take reasonable steps to ensure that the actuarial document is clear and presented fairly
- ❑ Include language that limits distribution to other users, to help prevent misuse



ASOP No. 41—

Other Required Disclosures in an Actuarial Report

- ❑ The scope and purpose of the assignment
- ❑ The actuary's qualifications
- ❑ Explanation of material differences from prior communications
- ❑ Cautions on risk and uncertainty
- ❑ Limitations or constraints
- ❑ Any conflicts of interest
- ❑ Reliance on data, assumptions, or information supplied by others



Practice-Specific Actuarial Communications

- Every ASOP, except ASOP No. 1, has a section on Communications and Disclosures (section 4 of each ASOP).
- Such guidance may supplement guidance in ASOP No. 41.



Disclosure vs. Documentation

- Disclosure requirements are distinct from documentation requirements.
 - ▣ Disclosure requirements—what must be included in an actuarial report—are in section 4.
 - ▣ Documentation requirements—what must be in the actuary's work papers—are in section 3.



Discussion



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The Muscles of the ASOPs

Disclosure, Reliance, and Deviations



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Disclosure

- ❑ Section 4 covers the disclosure requirements of every ASOP (except ASOP No. 1).
- ❑ The disclosure requirements in a specific ASOP are in addition to the disclosure requirements of ASOP Nos. 23 and 41.
- ❑ The disclosures are organized into two types:
 - ❑ those that should be included in all actuarial reports; and
 - ❑ those that are included only in certain instances.



Disclosure

- Section 4 requires the following additional disclosures in an actuarial report, if applicable:
 - The disclosure in ASOP No. 41, section 4.2, if any material assumption or method was prescribed by applicable law;
 - The disclosure in ASOP No. 41, section 4.3, if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and
 - The disclosure in ASOP No. 41, section 4.4, if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of the ASOP.



Reliance

- Actuaries frequently rely upon others for
 - ▣ information;
 - ▣ professional judgments; or
 - ▣ some component of an actuarial analysis.
- Some ASOPs permit the actuary to rely in good faith upon such individuals, **subject to appropriate disclosure of such reliance**, if required by applicable ASOPs.
 - ▣ For example, ASOP Nos. 23, *Data Quality*, and 41, *Actuarial Communications*



Reliance on Data Supplied by Others

- Review the data and information
- Assess its limitations, reasonableness, and suitability
- Disclose reliance and limitations
 - ASOP No. 23, section 4.1(h)
- “Define the extent of reliance ... by stating whether or not checks as to reasonableness have been applied”
 - ASOP No. 41, section 3.4.3

Other Reliance

- On assumptions or methods selected by others
 - ▣ ASOP No. 41, section 3.4.4
- On another actuary
- On experts



Deviation

- The actuary must be prepared to justify the use of procedures that depart materially from those set forth in an ASOP.
 - Code, Annotation 3-3
- The actuary can still comply with an ASOP by disclosing the nature, rationale, and effect of any deviation.
 - ASOP No. 41, section 4.4
- It is not appropriate to make a strained interpretation of the provisions of an ASOP.
 - ASOP No. 1, section 4.2



Recent Articles

- “ASOPs and the Exposure Process: A Question of Integrity”
 - *Actuarial Update*, September 2018
- “Disclosure: The Cornerstone of the ASOP’s Strength”
 - *Actuarial Update*, February 2018
- “Reliance and the ASOPs: In Good Faith and Subject to Disclosure”
 - *Actuarial Update*, October 2017
- More Professionalism Counts articles at actuary.org/content/professionalism



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Brain Food

Resources to Help You Use the ASOPs

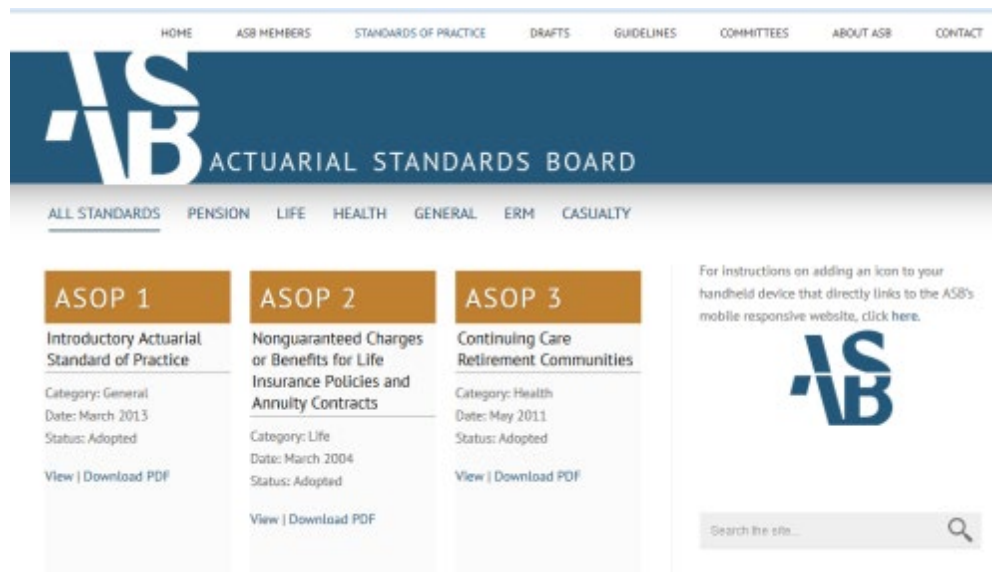


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Actuarial Standards Board Website



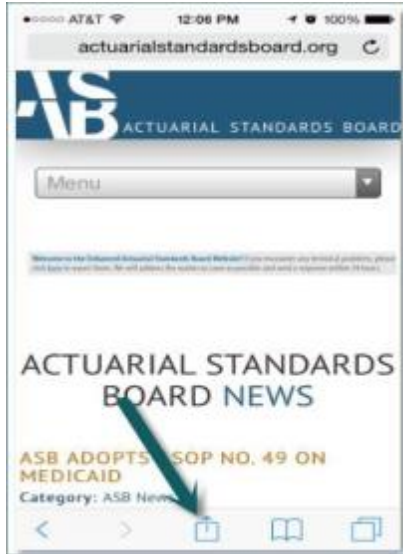
www.actuarialstandardsboard.org

- ☐ 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.

1



2

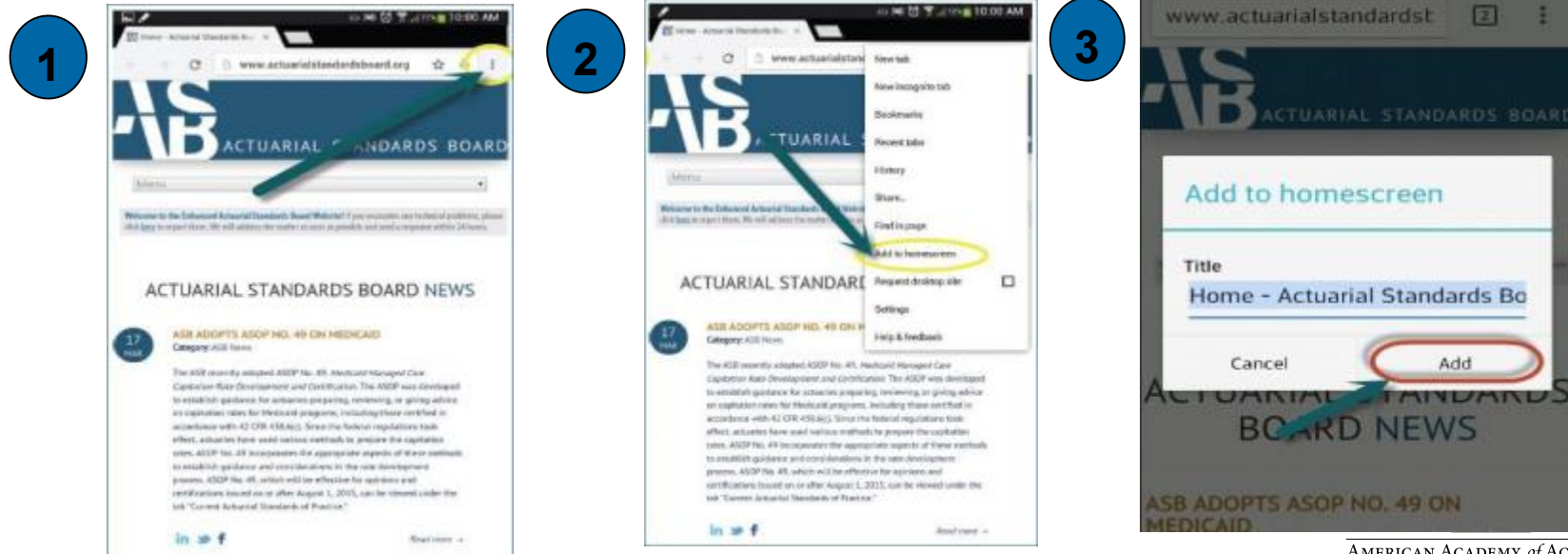


3



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.



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

Actuarial Board for Counseling and Discipline

Actuarial Standards Board

The Social Security Game

Actuarial eLearning Center

PAL Pension Assistance List Volunteer

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



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Applicability Guidelines for Actuarial Standards of Practice – Casualty

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)															
			7	12	13	17	19	20	21	25	29	30	36	38	39	43	46	47
8	1.0 Appraisals																	
9	1.1	Appraisals	7	12			19	20	21	25				38		43		
10	2.0 Data Management																	
11	2.1	Data management												38				
12			Note that any standards related to the purpose for which the actuary is managing data would also apply.															
13	3.0 Enterprise Risk Management																	
14	3.1	Enterprise risk management	7	12	13			20		25				38		43	46	47
15	3.2	Model development and/or validation, including catastrophe models	7					20	21					38		43	46	47
16	3.3	Stress testing	7	12				20						38		43	46	47
17	3.4	ORSA	7	12	13			20		25				38		43	46	47
18	4.0 Expert Advice, Witness, and/or Testimony																	
19	4.1	Expert testimony				17												
20			Note that any standards relating to the subject on which the actuary is providing expert advice would also apply.															
21	5.0 Financial Analysis, Projections, and Reporting																	
22	5.1	Analysis of cost of capital issues	7					20				30		38				
23	5.2	Asset liability management	7					20		25				38		43		
24	5.3	Profitability analysis	7	12	13			20				30		38		43		
25	6.0 Product Development/Ratemaking/Pricing																	
26	6.1	Creation and review of risk classification plan		12	13					25				38		39		
27	6.2	Evaluation of deductibles, coinsurance, and insurance to value		12	13					25	29			38				
28	6.3	Estimation of risk provision	7	12	13			20		25	29	30		38		39		
29	6.4	Individual risk rating	7	12	13					25	29	30		38		39		
30	6.5	Relativity analysis and filings (e.g., increased limits factors, amount of insurance relativities, territorial relativities, etc.)		12	13					25	29			38		39		
31	6.6	Rate adequacy analysis and filing preparation and/or attestation		12	13			20		25	29	30		38		39		

ASB 2017 Annual Report



2017

Actuarial Standards Board



ASB 2017 ANNUAL REPORT

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Conclusions



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Conclusions

1. Built to last! ASB is 30 years old!
2. Comply with ASOPs & keep up with changes in ASOPs.
3. Demonstrate compliance with ASOPs by your disclosures.
4. Get involved—comment on exposure drafts.



Questions



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