

CHAIR'S LETTER

During 2004, the ABCD started eleven inquiries into possible violations of the Code of Professional Conduct. This is an increase from 2003 but still below the long term average. On the other hand, the board handled 44 requests for guidance (in which actuaries ask for advice about their own conduct or practice), and this approached the all-time high. It appears that the profession is becoming more aware of our guidance services, and our members will continue to try to answer these requests rapidly and with individual attention to the particular circumstances.

On three of the eleven inquiries, the ABCD tried mediation as a way of resolving the dispute. In such cases, the ABCD has no power to arbitrate or impose a solution but can encourage the parties in a dispute to reach a resolution of their differences.

The ABCD also responded to two sets of hypothetical questions in 2004, one having to do with the limits that pension actuaries should observe on the ways that discount rates are calculated for use in determining FAS 87 and FAS 106 liabilities and the other concerning conflicts of interest. Hypothetical questions have proven difficult and time-consuming for the ABCD, and it is usually impossible to give absolute answers without the extensive background details that are available in a real case. Nonetheless, the ABCD does view responding to these hypothetical questions as an important way to provide guidance to the profession. The ABCD generally seeks and obtains permission to publish these hypothetical questions and answers, thus ensuring the broadest possible dissemination of its guidance.

The ABCD published a revision in its rules of procedure at year end. In a major effort going back more than a year, the ABCD drafted a revision, exposed it for comment to the profession, and carefully considered the 24 letters received. The revision included some clarifying changes to the procedures for guidance, increased protection for anonymous complainants, and improved procedures for starting inquiries on the ABCD's own initiative.

Three valuable members of the board completed their term of service in 2004. Sue Collins will be remembered for her incisive insights into complicated situations. Dave Flynn brought common sense and a deep knowledge of casualty insurance to the work of the ABCD. Howard Phillips showed leadership and an eagerness to tackle the

most difficult of technical issues, such as his analysis of “wearaway” that will never be forgotten by fellow board members. Dave and Howard served as Vice-Chairs of the ABCD. All three will be missed.

Frank Irish FSA, MAAA

February 6, 2005

Summary of Alleged Violations 2004

There were 25 inquiries in process with the ABCD during 2004, based on either complaints or adverse information. While detailed information cannot be released about any of these inquiries, the table below provides a summary of the major issue areas into which the alleged violations of the Code of Professional Conduct fall.

Note that this summary does not include the 44 requests for guidance during 2004 and that some inquiries involve multiple issues.

Issue Alleged	Number of Occurrences		
	Initiated before 2004	Initiated in 2004	Total
Failure to act with integrity	6	6	12
Improper reserve estimate for insurer	5	0	5
Calculation errors (including data errors)	4	1	5
Conflict of interest	4	0	4
Improper reserve opinion	0	3	3
Use of unreasonable assumptions	1	1	2
Failure to cooperate with successor actuary	1	0	1
Disclosure of confidential information	1	0	1
Treating another actuary with disrespect	0	1	1
Allowing misuse of work product	0	1	1
Inadequate actuarial communication	0	1	1

Cases Considered During 2004

Type of Case	Pending from 2003 and earlier	Received in 2004	Total
Conduct	6	6	12
Practice	4	4	8
Conduct and practice	4	1	5
Requests for guidance	2	44	46
Total	16	55	71

Cases by Practice Area	Pending from 2003 and earlier	Received in 2004	Total
Casualty	5	14	19
Health	2	9	11
Life	2	11	13
Pension	7	21	28
Total	16	55	71

Cases Closed

Action by Individual ABCD members

Replied to requests for guidance 46

Disposition by Chairperson and Vice Chairpersons

Dismissed 4
(Referred to Investigators in 2004—4)

Disposition by Whole ABCD After investigation

Dismissed	1
Dismissed with guidance	2
Counseled	1
Counseled after hearing	0
Recommended suspension	<u>0</u>

Total **54**

Cases in Progress (as of 12/31/04)

Pending disposition following hearings	3
Pending investigation	7
Pending hearing	3
Pending receipt of more information (from complainant, subject, other)	<u>4</u>

Total **17**

Cases Completed

Since its inception in 1992, the ABCD has completed its cases as follows:

Dispositions	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
Dismissed	12	24	9	11	8	11	13	10	5	20	16	7	5	151
Dismissed with guidance	6	10	3	—	5	1	5	2	8	5	4	2	2	53
Counseled	—	2	8	1	6	2	5	—	2	3	2	4	1	36
Mediated	3	1	1	—	—	—	—	1	—	4	—	1	—	11
Recommended private reprimand	—	—	—	—	—	—	—	—	1	1	—	—	—	2
Recommended public discipline	—	1	2	—	3	—	1	—	3	—	—	1	—	11
Replied to requests for guidance	8	8	8	10	28	31	22	31	36	21	47	30	46	326
Total	29	46	31	22	50	45	46	44	55	54	69	45	54	590

Actuarial Board for Counseling and Discipline

2004 Members

Frank S. Irish, Chairperson

David P. Flynn, Vice Chairperson

Howard M. Phillips, Vice Chairperson

Edward E. Burrows

Sue Ann Collins

William J. Falk

Lawrence A. Johansen

Julia T. Philips

Michael L. Toothman

Staff Liaison: Thomas C. Griffin