

# 2003

# Professionalism Annual Report

**Actuarial Board for Counseling and Discipline**

**Actuarial Standards Board**

**Committee on International Issues**

**Committee on Professional Responsibility**

**Committee on Qualifications**

**Council on Professionalism**

**Joint Committee on the Code of Professional Conduct**

## **Preface**

To Members of All Organizations Representing Actuaries in the United States:

This is the eighth combined annual report of the Actuarial Board for Counseling and Discipline, the Actuarial Standards Board, the American Academy of Actuaries Committee on Qualifications, and the Academy's Council on Professionalism. Its purpose is to inform the members of the five U.S.-based organizations representing actuaries (American Academy of Actuaries, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries) about the activities of these groups and their importance to actuarial professionalism.

In the United States, the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline have been established as independent organizations to serve the actuarial profession in the areas of standard-setting and investigation, counseling, and discipline. They are responsible to the five U.S.-based organizations representing actuaries. Each of these boards receives administrative support from the staff of the American Academy of Actuaries, the cost of which is covered by American Academy of Actuaries dues, plus additional support from the other U.S.-based organizations to cover the cost of their members who are not members of the American Academy of Actuaries.

The actuarial profession in the United States has delegated to the Academy, through the Academy's Committee on Qualifications, responsibility for developing and maintaining standards of qualification to practice as an actuary.

The U.S.-based organizations have agreed to maintain a common Code of Professional Conduct, including reference to appropriate qualification standards and standards of practice, and counseling and disciplinary practices designed to be consistent between the organizations. That Code is maintained by the Joint Committee on the Code of Professional Conduct, a committee of representatives of the U.S.-based organizations that receives administrative support from Academy staff.

The activities of the Actuarial Board for Counseling and Discipline, Actuarial Standards Board, Committee on Qualifications, Joint Committee on the Code of Professional Conduct, and other committees addressing various aspects of professionalism, including the Committee on International Issues and the Committee on Professional Responsibility, are coordinated through the Academy's Council on Professionalism, which is dedicated to encouraging the members of all U.S.-based actuarial organizations to achieve and maintain a high level of professionalism in their ongoing practice.

There are also committees that address professionalism issues within each of the organizations representing actuaries in the United States. The work of these groups supports the efforts of the Actuarial Board for Counseling and Discipline, Actuarial Standards Board, and Academy Committee on Qualifications and strengthens the professionalism of all actuaries.

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# Actuarial Board for Counseling and Discipline

## Letter from the Chair



During 2003, the Actuarial Board for Counseling and Discipline (ABCD) continued to implement recommendations from a task force study of its operations. The ABCD enlisted a new group of investigators for future cases, initiated a series of quarterly reports to all those involved in current cases, and directed efforts toward better communication with the profession about the work of the ABCD. Despite this year's efforts, communication remains a problem needing further attention.

Work was completed on a number of complaints that arose in prior years, including four on which hearings were held. The number of new complaints filed during the year was smaller than usual, and thus a smaller backlog existed at the end of the year than has in recent years.

The volume of requests for guidance remained strong, although nowhere near the high level of 2002.

Requests for guidance are defined as inquiries from actuaries who have questions about conforming their own work to the Code of Professional Conduct and the standards rather than complaining about the conduct of another. In the four years that I have been on the ABCD, I have seen and admired the skill and dedication with which ABCD members respond to requests for guidance. Those who make requests for guidance need (and usually get) fast and effective answers.

The ABCD saw two outstanding members complete their term and leave at the end of 2003. Bill Bugg and Bob Sturgis both gave unselfishly of their knowledge, insights, and energies during the era of their service. We shall miss them.

*Frank S. Irish  
Chairperson*

*Actuarial Board for Counseling and Discipline*



## **Actuarial Board for Counseling and Discipline**

*Top (L-R): William J. Falk, Lawrence A. Johansen, Sue Ann Collins, David P. Flynn, William J. Bugg Jr. Bottom (L-R): Howard M. Phillips (Vice Chairperson), Frank S. Irish (Chairperson), Robert W. Sturgis (Vice Chairperson). Not pictured: Edward E. Burrows.*

# Committee on International Issues

## Letter from the Chair

The Committee on International Issues is responsible for all liaison activities with the international actuarial community involving international professionalism issues.

In particular, we monitor international developments with respect to codes of conduct, qualification standards, and standards of practice. We also recommend Academy appointments of U.S. actuarial representatives to all international boards and committees. In practice, this means interacting with the Committees of the International Actuarial Association (IAA).

As a consequence, the membership of the Committee is composed of the delegates and alternate delegates to the IAA from the 5 U.S.-based actuarial organizations.

Currently, the Committee has a draft discussion paper, available on the Academy's website, entitled *Application of Professional Standards in International Practice—Concepts on Professionalism*, seeking membership comments. The purpose of the paper is to assist actuaries

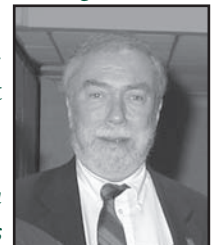
in applying professional standards of conduct, practice, and qualification when practicing internationally.

The Committee hopes that the ideas presented will prove useful and thought-provoking and will enhance members' consideration of the professionalism aspects of international practice. Ultimately, it is the Code of Professional Conduct that governs members' actions in this area, but it is hoped the paper will assist actuaries in applying the Code to their individual situations.

In addition, the Committee is charged with developing a summary comparison chart comparing U.S. standards with those of other countries and having the chart posted on the website later in 2004.

If you have any concerns on international issues, please feel free to contact the Committee.

*Curtis E. Huntington, Chairperson  
Committee on International Issues*



## **Council on Professionalism**

### **Letter from the Vice President**



For better or for worse, the actuarial profession has raised its public profile so that we no longer have to explain what we do. Our work is being scrutinized ever more closely by accountants, attorneys, media, plan participants, policyholders, state and federal regulators, and other similar constituencies. Fortunately, our work has withstood the glare of public and legal inspection, with very few exceptions. In general, the actuarial profession's public acknowledges and respects the high level of integrity and competence of actuaries, a perception in accordance with the Council on Professionalism's vision statement for the profession.

The council has focused its energy and resources over the past year on trying to achieve that vision. But rather than enumerate last year's achievements, I'd prefer to look forward to next year's challenges. The council is currently seeking comments from all Academy members on an exposure draft on revised qualification standards. If ultimately adopted by the Academy's Board of Directors, this exposure draft will affect almost every active member's practice.

One challenge will be to attract comments from a much larger proportion of our membership than historically has provided comments.

At the same time, the council has formed a task force to review and address litigation risks. This task force faces the challenge of driving necessary cultural changes through the profession. Until then, actuaries will continue to face multimillion-dollar lawsuits, including lawsuits in which the actuary is clearly not at fault. Similar challenges abound, including some that have not yet been discovered. The council is composed of many exceptional volunteers, all devoted to increasing the already high level of professionalism among actuaries. Their insight and contributions to the council are the fuel that allows the Academy's professionalism engine to run smoothly. I am truly thankful to be associated with a group of actuaries who are so deeply committed to achieving the council's vision.

*Robert J. Rietz*

*Vice President of Professionalism  
American Academy of Actuaries*

## **Joint Committee on the Code of Professional Conduct**

### **Letter from the Chair**

Having completed the significant effort in 2000 to complete the revised Code of Professional Conduct and work for its adoption by the U.S. actuarial organizations, the Joint Committee on the Code of Professional Conduct devoted 2003 to the ongoing tasks of monitoring issues related to the Code and educating members about the requirements of the revised Code.

As part of that effort, committee representatives met with practitioners to discuss the application of the Code in professional practice and ways that the Code might be misinterpreted.

One area of potential concern to some practitioners was how the Code's disclosure requirements might be mis-

understood, particularly in the context of litigation. To provide practitioners with additional, non-binding guidance in this area, the committee agreed to prepare a discussion paper on disclosure under the Code. A first draft of the paper will be available to the membership later in 2004.



*Kenneth A. Kent, Chairperson  
Joint Committee on the Code of  
Professional Conduct*

## **Committee on Qualifications**

### **Letter from the Chair**

The Committee on Qualifications finalized revised Qualification Standards and is currently exposing them for comments from Academy members. The exposure draft, which incorporates feedback from a discussion draft that was circulated at the end of 2002, would expand the scope of the standards to all statements of actuarial opinion.

While the original Qualification Standards focused on statutory and regulatory work, the revised standards apply to a broader range of actuarial opinions, such as opinions intended by the actuary for people or organizations other than the actuary's direct employer. The revised

standards reflect the ever-changing nature of the actuarial profession by focusing on broad areas of actuarial practice rather than the traditional practice areas.

The committee looks forward to reviewing the comments on the exposure draft and encourages all members of the Academy to review carefully the exposure draft and submit comments.



*Kathleen A. Riley  
Chairperson  
Committee on Qualifications*

## Actuarial Standards Board

### Letter from the Chair



The Actuarial Standards Board (ASB) develops, obtains comment upon, adopts, and revises actuarial standards of practice (ASOPs) for the actuarial profession. ASOPs serve actuaries by assuring that their work will conform to generally accepted actuarial practices. At the same time, ASOPs assure the public that actuaries are professionally accountable.

In 2003, the ASB approved the release of five exposure drafts and three second exposure drafts. The ASB continued its effort to update existing standards in order to reflect current practices; five of the exposure drafts were proposed revisions of existing standards.

One notable exposure draft, the Introduction to the Actuarial Standards of Practice, offered guidance about the purpose, nature, and format of ASOPs, as well as information about some commonly used terms and concepts.

In addition, the ASB repealed three documents this year:

- Actuarial Compliance Guideline (ACG) No. 1, An Actuary's Guide to Compliance with Statement of Financial Accounting Standards No. 87
- ACG No. 2, For Statement of Financial Accounting Standards No. 88
- The preface to the ASOPs.

For devoting their time and dedication to the standards-setting process, I would like to extend my thanks to members of the ASB, to ASB committee and task force chairpersons, to all volunteers who serve on the drafting committees, and to our staff. Special thanks to Heidi Rackley and Robert Wilcox, who concluded their service on the ASB at the end of 2003, as well as to William Koenig, who concluded his two-year term as chairperson.

*Mike LaMonica*  
*Chairperson*

*Actuarial Standards Board*

### *Actuarial Standards Board*

*L-R: William Weller, Cecil Bykerk, Heidi Rackley, William Koenig (Chairperson), Michael LaMonica, Ken Hartwell, Karen Terry, Lawrence Sher, Robert Wilcox.*



## Committee on Professional Responsibility

### Letter from the Chair

Under the Council on Professionalism, the general charge of the Committee on Professional Responsibility is to promote, through its activities, high levels of professionalism among the members of the Academy.

The committee met in person three times during 2003. Our efforts have been focused primarily on the creation of discussion papers on professional topics in developing areas of actuarial practice. Discussion papers, which are available to members on the Academy's website, provide a framework of ideas for members to use in making their own decisions.

In early 2003, *The Actuary's Relationship's with Users of a Work Product* was completed by the committee, approved by the Council, and published on the Academy website. Near the end of 2003, the committee finalized a draft of *The Application of Principles and Practices for Actuaries*

*Working in Developing Areas*, anticipating publication approval in early 2004.

The committee continued work on revisions to an existing discussion paper on the topic of peer review, and began work on a new discussion paper with the working title of *The Role of the Actuary and the Nature of Actuarial Models*.

The committee also made significant progress on the development of a professionalism speaker's kit. A sample slide presentation has been completed and work on an accompanying script is scheduled to be released in 2004.



*Tom Bakos*  
*Chairperson*

*Committee on Professional Responsibility*