



ASOP No. 41: Actuarial Communications and the Actuarial Standards Board

Webcast – March 23, 2011

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





Presenters

- **Al Beer**, FCAS, MAAA, Chairperson of the Actuarial Standards Board, Former President of the Casualty Actuarial Society, and Professor of Risk Management and Actuarial Science at St John's University.
- **Jim Murphy**, FSA, MAAA, Member of the Actuarial Standards Board and Former Executive Vice President of the American Academy of Actuaries.
- **Moderator:** Sheila Kalkunte, Academy's Assistant General Counsel.





Disclaimer

The statements and opinions expressed herein are solely those of the panelists and do not constitute official statements or positions of the Academy, or any of its committees, or the Actuarial Standards Board.





Agenda

- The Actuarial Standards Board: Structure and Process
- Revised ASOP No. 41
- Standard Deviation Language
- Questions





Actuarial Standards Board: Structure and Process

Al Beer, FCAS, MAAA





The Actuarial Standards Board

- The ASB is an entity established within and managed with the support of the American Academy of Actuaries staff. It operates independently in establishing standards.
- It was established in 1988 as the single board promulgating standards of practice for the entire actuarial profession in the United States.
- The ASB was founded with the sole authority to develop, obtain comment upon, adopt, and continuously review standards of practice.





The Actuarial Standards Board

(cont'd)

- The ASB's goal is to set standards for appropriate actuarial practice in the U.S.
- Actuarial Standards of Practice (ASOPs) identify what the actuary should consider, document, and disclose when performing an actuarial assignment.
- The ASB establishes and improves standards of actuarial practice.





Composition of the Actuarial Standards Board

- Nine members
- 3-year terms
- One-third of the Board appointed each year
- One can serve no more than 2 consecutive terms
- Broadly representative of all areas of practice
- Appointed by Council of U.S. Presidents





Composition of the Actuarial Standards Board

2011 Members of the ASB

Albert J. Beer, Chair (*Casualty*)

Stephen G. Kellison, Vice-chair (*Life*)

Robert G. Meilander, Vice-chair (*Life*)

Alan D. Ford (*Health*)

Patrick J. Grannan (*Casualty*)

Thomas D. Levy (*Pension*)

Patricia E. Matson (*Life*)

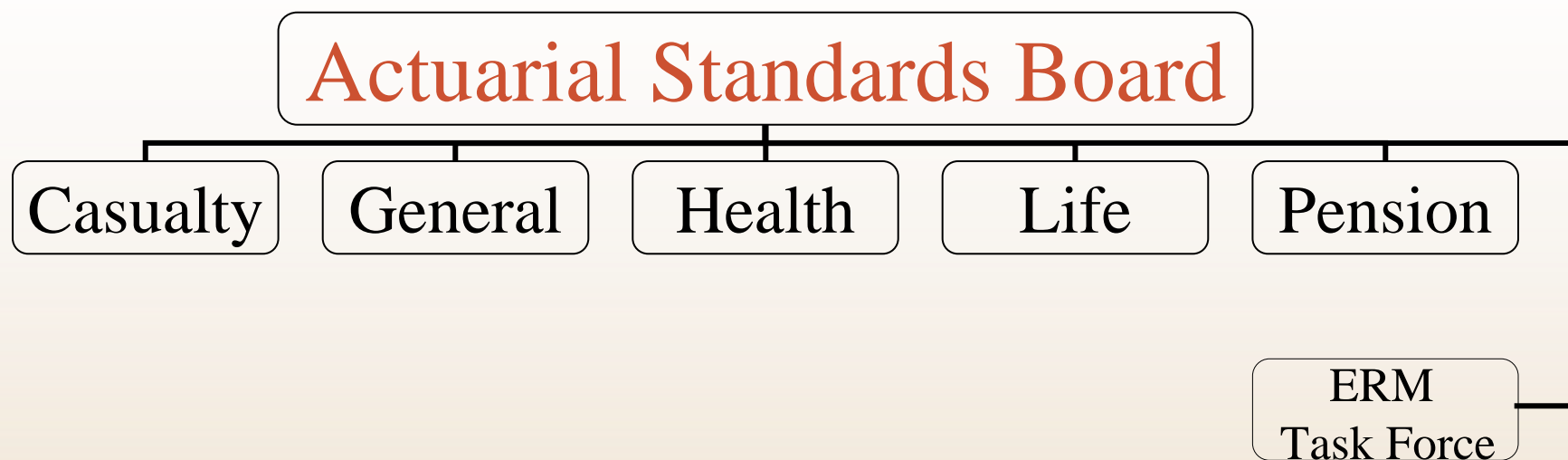
James J. Murphy (*Health*)

James F. Verlautz (*Pension*)





Standing Committees

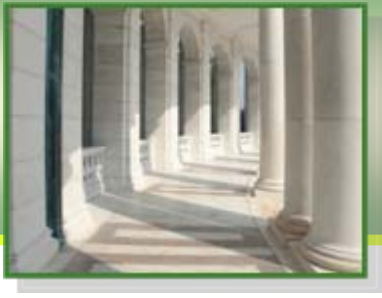




ASB Standing Committees

- Members are selected to represent a broad spectrum of expertise within each practice area.
- Members are selected from a broad cross section of firms/companies that work in each practice area.
- Members are proposed by the Committee Chairs and are approved by the ASB.





Process To Develop An ASOP

- Anyone may submit a proposal to the ASB, describing why a new Actuarial Standard of Practice is needed and what it would cover.
- After reviewing and evaluating current and emerging practices, the ASB may:
 - Approve the proposal and refer it to the appropriate Standing Committee to develop an Exposure Draft; or
 - Decline to approve it.





Process To Develop An ASOP (cont'd)

- Proposal sent to a Standing Committee to develop an Exposure Draft
- Proposed Exposure Draft is sent to the ASB for review
- Exposure Draft is approved for release by the ASB
- Distributed to the profession and other parties for comment
- At the conclusion of a specified comment period, the Standing Committee reviews all the comments received and makes modifications as deemed appropriate.





Process To Develop An ASOP (cont'd)

- The Standing Committee then submits a Final Draft of the ASOP to ASB for approval.
- The ASB reviews the proposed ASOP and may
 - Approve the New/Revised ASOP; or
 - Re-expose it, depending on the materiality of changes from existing exposure draft.
- *www.actuarialstandardsboard.org*





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ASB Headlines

ASOP No. 27 Exposure Draft; No. 4 Discussion Draft Comment Deadlines Extended

The comment deadline for the exposure draft of ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, and ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, has been extended to April 30, 2011. The ASOP No. 27 revision reflects changes in language on such issues as assumptions, discount rates, and investment returns. The ASOP No. 4 discussion draft was issued by the Pension Committee to encourage feedback and comments on several challenging and diverse issues, such as market-consistent measures and prescribed assumptions. Although the Committee is not committed to responding to the feedback it receives on the discussion draft, the Committee intends to incorporate the feedback into its work on developing more significant changes to ASOP in 2011.

ASB Repeals ASOP Nos. 2 and 9

The ASB recently repealed both ASOP No. 2, *Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88*, and ASOP No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations*. The Pension Committee of the ASB reviewed ASOP No. 2 and compared its various sections to ASOP No. 4. The conclusion was that ASOP No. 2 was redundant with ASOP No. 4; therefore, the Committee recommended it for repeal. The repeal was effective March 14, 2011. The Casualty Committee of the ASB reviewed ASOP No. 9 and compared its various sections to ASOP No. 41 as well as the *Code of Professional Conduct*. The Committee

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ASOP No. 41**

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Recent Discussion Drafts

- *Principle-Based Reserves for Life Products*
(released November 2010)
- Revision of *ASOP No. 4 -Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*
(released February 2011)
- *Enterprise Risk Management: Risk Evaluation and Risk Treatment* (released March 2011)





Recently Exposed ASOPs

Exposure drafts open for comment:

- *ASOP No. 20 - Discounting of Property/Casualty Unpaid Claim Estimates (deadline May 1, 2011)*
- *ASOP No. 27 - Selection of Economic Assumptions for Measuring Pension Obligations (deadline April 30, 2011)*

Proposed exposure draft:

- *Proposed new ASOP - The Use of Health Status Based Risk Adjustment Methodologies*





Recent Revisions/Adoptions

- *ASOP No. 35 - Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations* (September 2010)
- *ASOP No. 36 - Statement of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves* (December 2010)
- *ASOP No. 41- Actuarial Communications* (December 2010)





Recent Revisions/Adoptions

- Repeal of ASOP No. 2 - *Recommendations for Actuarial Communications Related to Statements of Financial Accounting Standards Nos. 87 and 88* (March 2011)
- Repeal of ASOP No. 9 - *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations* (March 2011)
- ASOP No. 10 - *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with U.S. GAAP* (March 2011)





ASOP No. 41 - Actuarial Communications and Standard Deviation Language

Jim Murphy, FSA, MAAA





ASOP No. 41 – Actuarial Communications

- Historical perspective
- What is the scope of ASOP No. 41?
- How does the revised ASOP differ from the original?





Historical Perspective

- Original ASOP No. 41 adopted by ASB (March 2002)
- First Exposure Draft (September 2008)
 - 23 comment letters
- Second Exposure Draft (December 2009)
 - 37 comment letters
- Final Draft adopted by ASB (December 2010)
 - To be effective May 1, 2011





Historical Perspective (cont'd)

- Original ASOP No. 41
 - What an actuary should communicate
 - When an actuary should communicate
 - What an actuary should disclose
- Actuaries expressed concerns:
 - Need for more clarity
 - Wording and structure somewhat confusing
- ASB felt it did not address deviation fully





What is the scope of ASOP No. 41?

- This standard applies to actuaries issuing **actuarial communications** within **any practice area**
- Covers any professional communication that includes an actuarial opinion or other actuarial findings
- Reference to Prescribed Statements of Actuarial Opinion (PSAOs) has been removed





How does the revised ASOP differ from the original?

Definition 2.1 Actuarial Communication

A written, electronic, or oral communication issued by an actuary with respect to actuarial services

Definition 2.8 Oral Communication

An actuarial communication made orally that has not, to the knowledge of the actuary, been recorded or transcribed

- It is not an actuarial document
- Where there is concern that the oral communication may be passed on to other parties, the actuary should consider following up with an actuarial document





How does the revised ASOP differ from the original? (cont'd)

Definition 2.4 Actuarial Report

The set of actuarial documents that the actuary determines to be relevant to specific actuarial findings that is available to an intended user

- Recognizes communication is ongoing and interactive
- Concept of a single formal actuarial report removed
- An Actuarial Report may comprise several different pieces of communication perhaps delivered in different forms
- Actuary directed to identify all applicable documents when multiple documents used to satisfy disclosure requirements



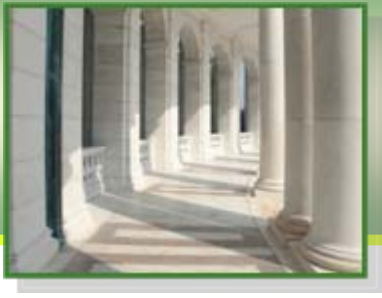


How does the revised ASOP differ from the original? (cont'd)

Section 3.3 Specific Circumstances

- Clarifies that in some internal and informal settings complete disclosure of all applicable supporting information is neither practical nor necessary
- Content of an actuarial report may be constrained
- Follow ASOP to the extent reasonably possible
- It may be appropriate not to include some content otherwise called for by the ASOP





How does the revised ASOP differ from the original? (cont'd)

Section 3.3 Specific Circumstances (cont'd)

- Limiting the content of an actuarial report may not be appropriate if that report or its findings may receive broad distribution
- The actuary must be prepared to identify such circumstances and justify limiting the content
- Additional discussion on this point has been added to appendix 1





How does the revised ASOP differ from the original? (cont'd)

Disclosure

- The actuary is responsible for all actuarial assumptions and methods unless the actuary discloses otherwise
- All disclosure requirements have been moved to section 4 (including situations where assumptions or methods are not set by the actuary)
- Additional guidance relating to disclosures remains in section 3.4





How does the revised ASOP differ from the original? (cont'd)

Section 4.1 Disclosures

- Disclosures in any Actuarial Communication
 - Identify Responsible Actuary
 - Identify Actuarial Documents—date and subject
- Disclosures in Actuarial Reports
 - Intended users
 - Scope and intended purpose of the engagement or assignment
 - Acknowledgement of qualification (per the Qualification Standards)





How does the revised ASOP differ from the original? (cont'd)

Section 4.1 Disclosures (cont'd)

■ Disclosures in Actuarial Reports (cont'd)

- Any cautions about risk and uncertainty (see section 3.4.1)
- Any limitations or constraints including, if appropriate, stating that the communication should not be relied upon for any other purpose
- Any conflict of interest (see section 3.4.2)
- Any information on which the actuary relied that has a material impact on the actuarial findings and for which the actuary does not assume responsibility (see section 3.4.3)





How does the revised ASOP differ from the original? (cont'd)

Section 4.1 Disclosures (cont'd)

- Disclosures in Actuarial Reports (cont'd)
 - Information date (see section 3.4.5)
 - Subsequent events, if any (see section 3.4.6.)
 - If appropriate, the documents comprising the actuarial report
- Note that other ASOPs that apply to a particular assignment may have additional disclosure requirements that should also be followed





Standard Deviation Language for all ASOPs

Deviation covered in Sections 4.2, 4.3, and 4.4

- How to comply with an ASOP while deviating from the guidance in the ASOP (as opposed to deviating from the ASOP)
- The subject of deviation is now treated consistently for all ASOPs, with the guidance on deviation detailed in ASOP No. 41
- Appropriate references to ASOP No. 41 will be added to all other ASOP
- See also Section 3.4.4, Responsibility for Assumptions and Methods





Standard Deviation Language for all ASOPs (cont'd)

Separate guidance provided for the following three cases

- When applicable law (which includes regulations and any other legally binding authority such as Statements of Financial Accounting Standards) specifies an assumption or method (Section 4.2)
- When a party other than the actuary sets an assumption or method which the actuary has not determined to be appropriate (Section 4.3)
- When the actuary judges it appropriate to deviate from the guidance in the ASOP for any other reason (Section 4.4)





Standard Deviation Language for all ASOPs (cont'd)

Section 4.2 Certain Assumptions or Methods Prescribed by Law

When material assumptions or methods are prescribed by applicable law (statutes, regulations, and other legally binding authority), disclose the following:

- Applicable law
- Assumptions or methods
- That the report was prepared in accordance with the applicable law





Standard Deviation Language for all ASOPs (cont'd)

Section 4.3 Responsibility for Assumptions and Methods

When the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method, disclose the following:

- Assumption or method that was set by another party
- Party who set the assumption or method
- Reason that this party has set the assumption or method
- **And** either
 - Assumption or method significantly conflicts with actuary's judgment; OR
 - That the actuary was unable to judge the reasonableness





Standard Deviation Language for all ASOPs (cont'd)

Section 4.4 Deviation from the Guidance of an ASOP

If, in the actuary's professional judgment, the actuary has deviated materially from the guidance set forth in an applicable ASOP, disclose the following:

- An appropriate statement with respect to the
 - Nature
 - Rationale, and
 - Effect of such deviation





QUESTIONS

