



AMERICAN ACADEMY *of* ACTUARIES

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Thomas F. Wildsmith IV, MAAA, FSA, *President*

February 8, 2016

Dear Members of the IAA Executive Committee:

I'm writing to share the American Academy of Actuaries' (Academy) views on how the International Actuarial Association (IAA) can most effectively support the efforts of its Full Member Associations (FMAs) to ensure the competency of practicing actuaries through the use of formal Continuing Professional Development (CPD). As the U.S. national association, establishing the standards necessary to ensure that actuaries practicing in the U.S. are competent is central to our mission. If the profession is to maintain the public trust, it must be diligent in ensuring that each actuary is fully competent to perform the specific work they are actually engaged in. Qualification standards, along with a strong code of professional conduct, appropriate standards of practice, and an effective discipline process are essential prerequisites for actuaries to be recognized as a profession that is worthy of the public's trust. In the United States, where the actuarial profession is self-regulating, the Academy provides these essential elements. The ultimate goal is to assure the public that the actuaries on which they rely are competent and worthy of the public's trust.

This letter addresses:

- The current state of development of CPD;
- The role of the IAA relative to the FMAs; and
- Specific suggestions for how the IAA can support FMAs in developing and providing CPD.

I have also attached an appendix which discusses in more detail our views on how formal CPD relates to all of the other standards and requirements that are intended to ensure the competency of actuaries.

Current State of Development of Actuarial Continuing Education

Many FMAs in jurisdictions where the actuarial profession is well-established and mature have some form of CE/CPD system. Currently, these systems are typically based on a required number of hours of CPD. Far too often these hours ensure nothing more than an actuary's presence at an educational event. There is generally no effective means of verifying that educational objectives have been met.

As the U.S. national association, the Academy has a unique role in promoting professionalism among actuaries who are practicing in the States. We are developing online professionalism modules for our members that are designed to verify educational outcomes. The use of online education is not unique to the Academy. These efforts, however, are still relatively immature and are completely inadequate to meet any significant percentage of the CPD needs of the profession. The bulk of CPD continues to be delivered through conference seminars, webinars and other "one-way" forums that provide for relative limited active engagement by participants.

We believe that current CPD programs are in a relatively early stage of development. Current methods of delivering CPD can be of limited effectiveness, and exciting new learning technologies are being developed that may soon change how actuaries maintain their skills and knowledge. Because of this, we do not believe that it would be helpful for the IAA to take any action that would imply that the current state of actuarial CPD is

mature enough to be made a global standard. The current proposal runs the risk of encouraging FMAs to codify existing approaches that are based on simply counting hours of CPD. This would not benefit the profession, and could actually hinder the natural development of more effective CPD programs.

It's also important to remember that CPD is not an end in itself, but rather a tool to ensure that actuaries are competent whenever they provide actuarial services. Some national associations may find that other methods – such as requiring periodic recertification – are more appropriate and effective for their particular jurisdictions.

The Role of the IAA and the FMAs

The global actuarial profession is remarkably diverse. It reflects the underlying differences in legal systems, regulatory systems, economic systems, history and culture between nations. In addition, the profession itself has developed in different ways across the globe. In some countries, for instance, actuarial education is examination based; in others it is university based. We believe this diversity is appropriate and desirable.

The IAA has a vital role to play in supporting the development of a robust actuarial profession around the globe. The Academy understands that no nation stands alone in today's world, and U.S. actuaries are affected by developments in other countries. As the U.S. national association, we are fully committed to working with other FMAs through the IAA process for the mutual benefit of all our members. But that process can only be effective because it recognizes the underlying diversity of the profession. The structure of the IAA reflects this. The diversity of the global profession is the reason that the IAA was established as a forum for cooperation among sovereign member associations that retain full control over their internal policies and governance. Full Member Associations (FMAs) do not surrender local control within their jurisdictions to the IAA; if they did, they would be unable to appropriately serve the needs of their local jurisdictions.

CPD is a good example of why this structure is both appropriate and necessary. To be effective, CPD must be both relevant to the local jurisdiction and delivered in a way that is consistent with local needs and resources. In some jurisdictions, mechanisms other than CPD may ultimately prove to be more appropriate. We believe the IAA can be most effective in assisting FMAs to ensure the competence of actuaries practicing in their jurisdictions by playing a supportive role rather than a prescriptive role.

Suggestions for How the IAA can Support FMAs in Improving Actuarial CPD

We see the IAA as a potent facilitator of the continued development of the actuarial profession worldwide – including development of more effective CPD programs. The IAA is both a forum for cooperation and a provider of valuable resources and information for its FMAs. The Academy believes that it is as a provider of resources and information that the IAA can most effectively encourage the global development of more effective CPD.

The most appropriate approach to CPD, and the type of IAA support needed by FMAs, will vary depending on the local resources available and the degree of specialization in each jurisdiction. Where the range of actuarial services and degree of specialization among local actuaries is limited, a simpler approach tied to membership may be appropriate. Where the profession is highly developed and specialized, tying CPD to the specific types of actuarial services currently being performed is more appropriate.

We recommend that the IAA consider:

- Developing a report outlining the different ways in which CPD is required among FMAs, including what counts as CPD and what types of CPD are offered;
- Examining the differences in qualification standards and CPD requirements among jurisdictions with different levels of specialization, and the history of standards and requirements in those jurisdictions that are highly specialized, with the goal of providing a model “road map” that FMAs may use as the profession develops in their local jurisdictions;

- Surveying FMAs on the availability of sufficient locally-relevant CPD in their jurisdictions, and the ways in which the IAA might support them in filling any gaps;
- Creating a clearinghouse for FMAs in developing jurisdictions to share CPD materials of relevance to their particular situation;
- Examining the educational efficacy of current CPD delivery mechanisms;
- Creating a clearinghouse for FMAs to share information on new and innovative approaches to delivering CPD.

We believe that there is much that the IAA is uniquely positioned to do to support the global actuarial profession in this area. But to be effective, it is vital that the IAAs efforts recognize the diversity of the global profession, the need for qualification standards and CPD requirements to vary based on the degree of actuarial specialization in a jurisdiction, the need for jurisdiction-specific CPD, and the relatively immature state of current CPD delivery systems. This is precisely the type of issue where the IAA's status as a United Nations for the global profession is most powerful. The Academy's goal is to serve the U.S. public by ensuring that actuarial services are provided by individuals who are competent to provide those specific services, and who are fully committed to the highest standards of professionalism. CPD is simply one tool among many that we, and other FMAs, may use in achieving that goal within our jurisdiction. We look to the IAA to provide us with support and resources that we can use to assist us in achieving our goal.

We value our collaboration with the IAA, and would welcome the opportunity to discuss these issues with you in more detail.

Sincerely,



Tom Wildsmith, President
American Academy of Actuaries

Cc: Malcolm Campbell, President, IAA
IAA Executive Committee

Discussion of the Role of Continuing Education in the Actuarial Profession

The purpose of this appendix is to provide additional background information that I believe may be helpful in understanding the Academy's views on CPD, but which did not fit naturally into the body of the letter itself. It describes the Academy's understanding of the role and purpose of CPD, and how it relates to all of the other standards and requirements actuaries must meet to be recognized as "qualified." As part of this discussion I also describe how continuing education works in the United States.

Definitions

Before starting, I would like to clarify the way in which the Academy uses a couple of terms. The Academy – and the U.S. Qualification Standards (USQS) – uses the term "Continuing Education" rather than "Continuing Professional Development."

When the Academy uses the term "professionalism," we mean the moral and ethical framework necessary to ensure that actuaries – both individually and collectively as a "profession" – recognize their responsibility to the public and do not simply serve their own self interests. This is the basis for public trust in the actuarial profession. For us, "professionalism" does not include those general business and communications skills that individual actuaries may rely upon to advance their personal careers.

We use the term *Continuing Education* because we believe it is a broader term, capturing everything that a practicing actuary needs to stay current in his or her specific area of practice. This includes not just professionalism, but also advances in basic actuarial principles and techniques, legal and regulatory changes, "soft skills" (general business and communications), and changes in actuarial standards of practice. However, for purposes of this discussion, we have used the terms interchangeably.

When the Academy uses the term "qualified," we mean that an actuary has met the formal qualification standards that are intended to ensure that actuaries only perform actuarial work when they are fully competent to do so. For actuaries practicing in the States, these are the U.S. Qualification Standards (USQS).

Context and Role of Formal Continuing Education

CE/CPD requirements do not exist in a vacuum, and are only one element in ensuring the competence and qualification of actuaries.

Qualification standards typically include a basic education requirement, an experience requirement, and only then a CE/CPD requirement. This is the structure used by the U.S. Qualification Standards (USQS). The basic education requirement ensures a minimum familiarity with actuarial science and related topics. The experience requirement is intended to assure a minimum level of practical competence in specific areas of practice. CE/CPD is intended to ensure that a practicing actuary's knowledge remains current and relevant. This certainly includes advances in basic actuarial tools and techniques. But for most practicing actuaries, most CE/CPD will likely relate to changes in the laws, regulations and standards of practice relevant to their area of practice.

Technical knowledge and competence are only one component of what it means to be an actuary. A code of conduct, standards of practice and disciplinary process are equally important. Most actuaries become subject to a code of conduct and disciplinary process through their membership in the local national association for the country in which they live or practice. Establishing appropriate actuarial standards of practice for the local jurisdiction is another typical function of national associations. These non-technical elements are central to the professionalization of our discipline, and vital if we are to maintain the trust of regulators and the public.

In jurisdictions where the actuarial profession is highly developed, and divided into specialized practice areas, membership in an actuarial association cannot by itself be relied on to demonstrate qualification to perform any

specific actuarial work. Ken Hohman and I are both Members of the American Academy of Actuaries (MAAAs) and Fellows of the Society of Actuaries (FSAs). We both have multiple decades of experience, and both of us comply with the CE requirements of the USQS. But while we share common professional designations and memberships, Ken is a pension actuary and I am a health actuary. I'm not qualified to perform any of the actuarial services that Ken provides to his clients. And, while I have great respect for Ken, I'm comfortably certain that he's not qualified to practice in the health area. We believe this to be true of other jurisdictions where the profession has matured into multiple specialized practice areas. Membership in an actuarial association – such as the Academy or the Society – is not sufficient in and of itself to demonstrate competence in any particular practice area or to provide any specific actuarial services.

The USQS recognize this distinction between simple membership in an actuarial organization and competence to provide specific actuarial services. Membership in the Academy, or one of the other five U.S.-based actuarial organizations, is recognized as evidence that the basic education requirement has been satisfied.¹ Qualification in the U.S. is not a blanket concept, however, but is specific to particular areas of practice. To ensure the competence of actuarial work done in the U.S., the Code of Professional Conduct requires our members to perform actuarial services only when they are qualified to do so. But membership itself is not, and we believe cannot be, the measure of qualification to practice or to provide specific actuarial services.

A hypothetical example might help illustrate how this works. I currently meet the general USQS requirements in my area of practice, and am fully up-to-date with my CE requirements. Let's assume that I retire at the end of this year and stop doing any CE. I could maintain my Academy membership (and my Society of Actuaries membership as well), but I would no longer be qualified to practice. By maintaining my memberships, I would continue to be bound by the Code of Professional Conduct, which would prohibit me from doing work for which I would no longer be qualified. Ten years later I might find that I had retired too early, and that I needed to go back to work to supplement my income. The USQS would then require me to familiarize myself with any applicable new laws, regulations and standards of practice – and to again comply with the U.S. CE requirements – to be qualified (deemed competent) to resume providing actuarial services.²

CE is also a consideration when an actuary changes areas of specialization. If, for example, Ken were to hire me into his consulting firm, I would have to meet certain requirements before I would be qualified (deemed competent) to provide pension services. This would include familiarizing myself with the applicable laws, regulations and standards of practice. I would have to obtain a year of responsible actuarial experience in the new practice area under the direction of Ken, or another already qualified pension actuary. I would also have to obtain appropriate CE relevant to my new area of practice.

The global diversity of the profession is also relevant to the discussion of qualification standards and CE/CPD requirements. We strongly believe that as the profession's practice areas mature and specialize, it becomes necessary to view "qualification" in terms of competence to render specific services, rather than as a blanket right or status granted by membership in the profession – or membership in any actuarial organization. Clearly, the profession is in different stages of development in different regions. We have found that the U.S. approach works well for our current stage of development, but we do not intend to suggest that a single solution will work equally well everywhere. There may be jurisdictions where the profession is relatively unspecialized and the range of services actuaries provide is limited. In those circumstances, it may be the considered judgment of the local national association that using association membership as a proxy for qualification is reasonable and appropriate. In other circumstances the requirements for qualification may be established by a governmental authority through statute or regulation, rather than by the profession.

We believe this context suggests several conclusions. CE/CPD is best understood as a requirement to be currently qualified to provide specific actuarial services. In jurisdictions where the profession is specialized,

¹ Fully qualified members of other IAA FMAs are also deemed to have met the basic education requirement of the USQS' General Qualification Standard.

² The Academy does require all of its active volunteers to attest that they meet the CE requirements of the USQS. We believe this is an important standard to ensure the credibility of the work produced by our committees and task forces.

“qualification” is best evaluated by area of practice. Membership in an actuarial association should not be viewed as conferring qualification as a blanket privilege – instead, membership should be understood as imposing an obligation to act as a professional. This includes an obligation to abide by a code of conduct and, whenever performing actuarial services, to abide by the applicable standards of practice and qualification. Because of the role CE/CPD plays in keeping actuaries current in their practice areas, in most cases it should include more jurisdiction-specific material than would be necessary in the basic education system.³ CE/CPD can – and should – remind actuaries of their professional obligations, but cannot compensate for any weakness in codes of conduct, standards of practice, qualification standards, or disciplinary processes.

³ Attaining the highest possible actuarial designation in an IAA full-member organization satisfies the basic education requirement of the USQS’ General Qualification Standard. That does not by itself imply qualification to practice in the U.S. Knowledge of the applicable laws, regulations and standards is also necessary, as is meeting the experience and CE requirements.