

# THE ACADEMY AND THE WEB OF PROFESSIONALISM

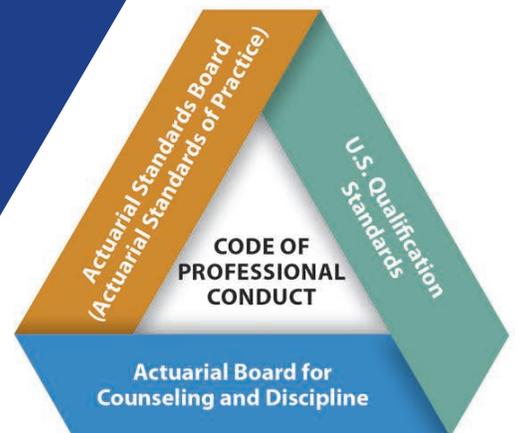
**Key Elements of the Professionalism Infrastructure  
of the U.S. Actuarial Profession**

BY TOM WILDSMITH



AMERICAN ACADEMY of ACTUARIES

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**The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.**

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# The Academy and the Web of Professionalism

Key elements of the professionalism infrastructure of the U.S. actuarial profession.

WHEN THE ACADEMY WAS ESTABLISHED just over 50 years ago, actuaries already had a long history in the United States, with a well-developed body of knowledge, multiple professional organizations, and well-established examination programs. But there was a problem. As the New York superintendent of insurance put it at the time, “Our laws today demand no more proof of the actuary’s competence than did the laws of ancient Rome.”<sup>1</sup> Anyone could present themselves to the public as an actuary, without regard to training, background, or expertise.

The Academy was created to address this problem. In describing the need for the Academy, the superintendent went on to say that “[o]ur nation cannot continue to permit the legal possibility that actuaries whose expertise may be at the level of a medieval barber’s application of leeches may work on programs involving 40 million American employees.”<sup>2</sup> The founders envisioned the Academy as “a new organization which would be neither subordinate to, nor would have any authority over, any other actuarial professional organization.”<sup>3</sup> Membership in the Academy was intended to provide a reasonable standard of certification for individual actuaries practicing in the United States. Thus, the Academy was established in 1965 to professionalize the U.S. actuarial community by providing the standards and disciplinary process necessary to be recognized as a self-regulating profession—to ensure that U.S. actuaries serve the public with the professionalism that it needs and deserves.

We have come a long way in the past 50 years. Our Code of Professional Conduct binds Academy members to the highest standards of conduct, recognizing that each of us has a moral responsibility to all the many people who may depend on our work. The U.S. Qualification Standards provide actuaries with the guidance needed to meet the ethical obligation to practice competently and responsibly. Through the Actuarial Standards Board, the Academy has promulgated 50 actuarial standards of practice covering all areas of actuarial practice. Through the Actuarial Board for Counseling and Discipline, we provide the basic disciplinary framework for the profession.

The Academy was founded so that the U.S. actuarial profession could earn the public’s trust. Our primary mission is to ensure that U.S. actuaries—both individually and collectively—provide the public with the professionalism it deserves.

This discussion paper explores the web of professionalism, housed within the Academy, that supports the U.S. actuarial profession.



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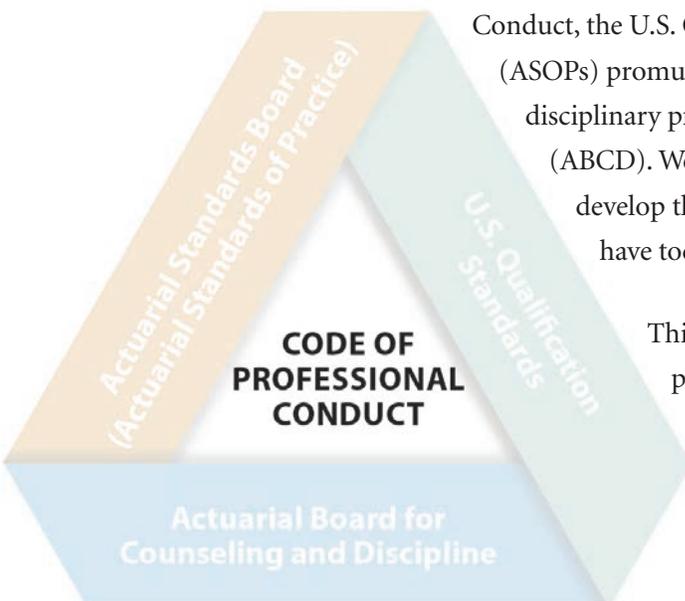
# The Code of Professional Conduct

**HOW DO YOU BUILD A PROFESSION?** Good intentions aren't enough. Thousands of individuals—who may share similar technical training but have very different personal histories and economic interests—must be unified around a common ethical commitment to the public. Then, the public—and the government that protects the public—must be persuaded that it can trust that commitment. Finally, you have to create a way of dealing with those inevitable occasions when someone fails to live up to his or her professional obligations.

Building a profession requires building an infrastructure that will both support a unified commitment to serve the public and provide the protections necessary to earn the public's trust. To be effective, this requires a web of inter-related standards and institutions that address all aspects of our ethical responsibility to the public.

The Academy was created to build this infrastructure for the U.S. actuarial profession. Our “web of professionalism” consists of four essential elements: the Code of Professional Conduct, the U.S. Qualification Standards, the actuarial standards of practice (ASOPs) promulgated by the Actuarial Standards Board (ASB), and the disciplinary process of the Actuarial Board for Counseling and Discipline (ABCD). Weaving this web was neither easy nor quick. It took decades to develop these highly interrelated elements into the mature form they have today. Yet the process was necessary to earn the public's trust.

This paper will explore each of these key elements of our professionalism infrastructure—the strands of the web—and the deep connections between them. The Academy's role in these standards and institutions is no historical accident; they are at the heart of the Academy's mission, and are the primary reason the Academy was established.



## **It All Begins With the Code**

The Code is at the center of the professionalism web because it defines our professional responsibility to the public, to our employers and clients, to each other, and to the profession itself. By accepting the Code when we become members of the Academy, we commit ourselves to meeting these responsibilities. The Code obligates us to adhere to the standards and disciplinary process that assure the public that we can, as a profession, be trusted. It binds the profession together and gives focus to our commitment to serve the public.

The Code provides the U.S. actuarial community with a common understanding of our responsibilities and of what constitutes appropriate professional behavior. These responsibilities include compliance with standards of conduct, qualification, and practice, all based on honesty and integrity. The Code binds actuaries to each other and to the profession as a whole by establishing common ethical and practice requirements. It establishes how actuaries should treat others, and its precepts require us all to participate in the self-regulation of the profession cooperating with the profession's disciplinary process.

## **The Code and the Profession**

The development and adoption of a uniform Code of Professional Conduct for the U.S. actuarial profession is one of the Academy's most significant achievements. This Code has been adopted by each of the five U.S.-based actuarial organizations, and the Academy played a key role in making that uniformity possible. The founding of the Academy in 1965 was a critical milestone in the establishment of U.S. actuarial professionalism. All the U.S.-based organizations then in existence supported the founding of the Academy to provide what the profession then lacked—a unified voice at the national level and a generally agreed-upon set of basic qualifications for actuarial competency.

From the beginning, the Academy was the organization recognized by the specialized societies then providing research and training to actuaries in the United States as the place where their common interest in establishing and maintaining adequate professional standards of actuarial practice and conduct would be developed.

In December 1965, immediately after the Academy was founded, it adopted its first code of conduct. This code established a common ethical framework for all Academy members, regardless of practice area or type of employment. Because the other U.S.-based organizations had adopted their own, disparate codes of conduct, the Academy began an effort in 1972 to encourage consistency between the various codes.

While this effort was initially successful, over time the various codes developed significant inconsistencies. At times they conflicted with each other. This was not just a source of confusion; it also complicated the disciplinary process for actuaries who were members of more than one actuarial organization. In the early 1990s, the Academy led a multi-year effort to develop a uniform Code of Professional Conduct for the U.S. actuarial profession. The goal was to update and redraft earlier codes so that the same identical document could be adopted by each of the U.S.-based organizations. This goal was finally achieved in 2001 when the boards of directors of all five of the U.S.-based actuarial organizations adopted a single Code of Professional Conduct, without any variations.

This same Code remains in effect today. Jack Turnquist, one of the giants of the profession, played a pivotal role as chairperson of the Joint Committee on the Code of Professional Conduct and was recognized for his efforts with the Academy's Jarvis Farley Service Award. Since 2001, the Joint Committee on the Code has focused on educating members and monitoring issues arising under the Code.

### **The Code and Our Responsibility to the Public**

Why is the Code of Professional Conduct so important? Why is it at the center of the web of professionalism? The 14 precepts of the Code summarize the basic obligations of an actuary toward the public, clients, employers, and the profession. These precepts set forth what it means for an actuary to act as a professional. By fulfilling these obligations, we earn the public's trust and collectively support the self-regulation of our profession.

The Code is woven around Precept 1, which establishes that professional competence, honesty, and integrity are fundamental professional requirements. The other precepts of the Code are spun from this central thread. Based on the fundamental principles in Precept 1, Precepts 2 and 3 of the Code obligate actuaries to adhere to professional standards of qualification and practice when providing actuarial services.

Other precepts of the Code apply these principles to specific types of professional conduct. Precepts 4 and 5, for example, require us to communicate clearly, to take responsibility for the contents of actuarial communications, and to identify the principal for whom a communication is issued. Under Precepts 6 and 7, an actuary must disclose compensation and any conflicts of interest, setting an ethical standard of honesty and transparency for our interactions with a principal.

Precepts 8 and 9 address control of work product and confidentiality. These two precepts require us to appropriately present and control information so that it is not used to deceive, mislead, or betray—any of which would harm the actuarial profession and undermine the public’s trust.

Precepts 11 and 12 take aim at misleading practices. Under Precept 11, we may not engage in false or misleading advertising. Precept 12 requires us to use actuarial membership titles and designations only in ways that conform to the practices authorized by the organization granting them.

Honesty and integrity are the common strands that run through all of these precepts, binding different aspects of our work together in a cohesive and ethical whole. For actuaries trying to decide whether they are truly qualified to take on a particular assignment, or which standards to apply (especially if there are no clearly applicable standards of qualification or practice), integrity and honesty are crucial to making the right decision. Other precepts help preserve the public’s trust in the profession by requiring a certain level of transparency in actuarial communications, identification of the responsible actuary and an acknowledgment of responsibility, and honesty where qualifications and expertise are concerned.

### **Courtesy, Cooperation, and Self-Regulation**

Precept 1 also prohibits “any act that reflects adversely on the actuarial profession.” This dictate extends beyond our conduct at work. The public trusts individual actuaries in large measure because they trust the profession. But the reverse is also true: The misconduct of a single actuary, regardless of the venue in which that misconduct may take place, can damage the reputation of all actuaries by undermining the public’s trust in the entire profession.

The drafters of the Code recognized that in professional relationships, whether with clients, employers, members of the profession, or others, we are responsible not only for our personal behavior but also for the good name of the profession. Thus, Precept 10 requires us to treat each other with respect by engaging with each other cooperatively, even in cases where we disagree or our personal interests conflict.

Precepts 13 and 14 define the individual actuary's obligation to help protect the public against misbehavior by other actuaries and to participate in the disciplinary process. This is essential to maintaining our independence as a self-regulating profession. Precept 13 requires any actuary who has "knowledge of an apparent, unresolved, material violation of the Code by another actuary to consider discussing the situation with the other actuary and attempt to resolve the apparent violation." If the actuary does not attempt such a discussion or it is not successful, the actuary must report the potential violation to the ABCD, the profession's counseling and investigatory body.

A conversation with a fellow actuary about a potential violation of the Code may be uncomfortable. But even in such difficult situations, or perhaps especially in such difficult situations, upholding and enforcing our own standards is vital to maintaining public trust and integrity—and the independence of our profession. If we cannot enforce our own standards, someone else will do it for us. This is why the Code gives each of us the responsibility not just to follow the Code and standards ourselves, but to speak up when we see possible violations of them.

### **A Leading Role in Professionalism**

The U.S. profession has a uniform Code of Professional Conduct today thanks to decades of work by Academy leaders and volunteers like Jack Turnquist, who drove its development and adoption. The Code unifies and strengthens our profession by defining our shared ethical commitments to the public and to each other. This is vital, because professionalism is not just mechanical compliance with a checklist of technical rules; it is a moral commitment to doing the right thing. By creating a common understanding of this commitment, the Code creates the foundation we need to build a culture of professionalism.

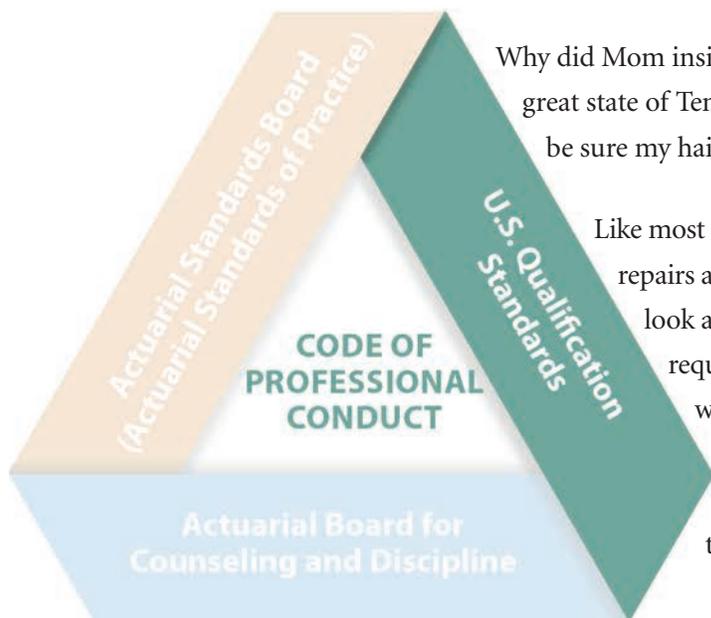
This section has examined the center of the web of actuarial professionalism: the Code of Professional Conduct. The following sections will cover the qualification standards, standards of practice, and the professional counseling and discipline procedures. Along the way, we will take a close look at the professionalism bodies housed and nurtured within the Academy to serve the profession and the public.

# Qualification Standards

WHEN I WAS A CHILD IN MIDDLE TENNESSEE, boys' hairstyles were simple, with just three choices: short, shorter, or a "flattop" (which was pretty short). Haircuts weren't very expensive, but you needed one every few weeks. The cost could add up.

Dad decided we could save some money if he cut my hair, so one day he bought an electric hair clipper. He read the manual, checked all of the accessories and adjustments, and set me in a kitchen chair for my first home haircut. Dad turned on the clipper, and took his first swipe with it—cutting an almost bald streak all of the way from the front of my head to the back, just slightly off-center. Had the furrow been centered, it might have been the world's first reverse mohawk—but it wasn't. It was just wrong. And Mom noticed. It was decided that Dad would take me to a barber to see if it could be fixed.

That wasn't a comfortable thing for him to do. It was obvious that my dad had been trying to avoid paying for a haircut. But, the local barber seemed amused. He fixed the problem as best he could, which involved removing quite a bit of my remaining hair.



Why did Mom insist that I be taken to a real barber, duly credentialed by the great state of Tennessee? Because having seen the alternative, she wanted to be sure my hair was cut right.

Like most homeowners, my wife Sally and I sometimes need home repairs and improvements. Before hiring anyone, we talk to neighbors, look at online reviews, and check references. For jobs that don't require any special skill, such as cleaning gutters, we'll hire anyone with a good reputation. But we hire only licensed plumbers and electricians. Why? Because water that isn't where it's supposed to be can cause thousands of dollars of damage; electricity that isn't where it's supposed to be can kill you.

When getting something done right is important—whether it be cutting a boy’s hair or wiring a house—competence matters. Credentialing, certification, licensure—these are all ways of protecting the public by ensuring a minimum level of competence. The goal is to make sure that important jobs are done correctly. This isn’t just a technical requirement. Professionals have an ethical responsibility to agree to take on work only when they are competent to do it correctly.

How do I know whether I’m competent to do a particular type of actuarial work? By looking at the U.S. Qualification Standards (USQS). The USQS provide us with the guidance we need to meet our ethical obligation to practice competently and responsibly. The purpose of the qualification standards is not to make folks jump through arbitrary hoops, but to ensure that actuaries practicing in the United States are competent at what they do. Protecting the public in this way is one of the central reasons the Academy was founded.

This section will discuss our professional obligation to practice in a competent manner, how that obligation is expressed in Precept 2 of the Code of Professional Conduct, and the role the U.S. Qualification Standards play in helping us meet that obligation.

### **Accreditation and the Search for Recognition of the Profession**

Prior to the Academy’s founding in 1965, there were *no* standards that an actuary had to meet in order to practice in the United States. As one regulator put it at the time, “Our laws today demand no more proof of the actuary’s competence than did the laws of ancient Rome.”<sup>4</sup> Instead of waiting for a crisis that would result in heavy-handed standards and requirements being imposed on actuaries by the government, visionary leaders recognized the need to create a self-regulating profession that could earn recognition by legislators and regulators. These visionaries knew we had to build a profession that would ensure that practicing actuaries were both competent and committed to serving the public. They had the insight to recognize that such a profession could be built on a flexible, self-regulating system, rather than on a rigid system of prescriptive government regulations. And they had the initiative to make it happen. Rather than waiting for government to impose the types of standards and institutions that other professions use to protect the public, they decided we should do it ourselves—and created an independent body, the Academy, for that purpose.

The creation of the Academy was the first step in a long journey toward our current qualification standards in the United States. The Academy established “competence” as a bedrock membership requirement in its first set of bylaws. In 1965, the year of the Academy’s founding, the Academy’s Board of Directors issued *Guides to Professional Conduct*, which stated: “The member will bear in mind that the actuary acts as an expert when he gives actuarial advice, and he will give such advice only when he is qualified to do so.” The next year, in 1966, the National Association of Insurance Commissioners (NAIC) adopted a resolution supporting recognized standards of actuarial competence and conduct and urged the commissioners to support the Academy’s efforts to gain official recognition. Indiana was the first to do so in 1968. By 1975, 17 states had recognized Academy membership as qualification for signing life and health insurance annual statements; 15 had done so for public employee retirement systems.

In 1981, the Academy Board adopted *Qualification Standards to Sign Statements of Actuarial Opinion on NAIC Annual Statement Blanks* (for “Life, Accident, and Health” and “Fire and Casualty”), addressing education and experience requirements. In 1982, the Academy created the Committee on Qualifications (COQ), consolidating the previous committees in order to consider qualifications across practice areas. The current committee is composed of highly regarded practitioners in each of the profession’s traditional practice areas—casualty, health, life, and pension.

### **The Current Qualification Standards Take Shape**

In June 1989, modern U.S. actuarial qualification standards began to take shape when the Academy Board adopted the recommendations from the COQ that suggested restructuring the qualification standards to create a “General Qualification Standard.” This General Standard would apply to Public Statements of Actuarial Opinion (PSAOs) for which a Specific Qualification Standard had not yet been developed. At that time, three Specific Qualification Standards existed for the NAIC Life, Health, and Casualty annual statements.

Two years later, in 1991, the Academy Board adopted the newly structured *Qualification Standards for Public Statements of Actuarial Opinion*, incorporating continuing education requirements for the first time. While the scope of the 1991 qualification standard was broad, it remained limited in this sense: The qualification standard did not apply to all statements of actuarial opinion (SAOs) but only to those issued for purposes of compliance with (i) law or regulation; (ii) an actuarial standard of practice (the Actuarial Standards Board was established in 1988); or (iii) standards promulgated by certain accounting standard-setting bodies.

### **Strengthening the Web: The 2008 Qualification Standards**

When the current Code of Professional Conduct took effect on Jan. 1, 2001, it included a qualifications mandate that echoes the requirement of the 1965 *Guides to Professional Conduct*. Precept 2 of the Code states: “An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so on the basis of basic and continuing education and experience, and only when the Actuary satisfies applicable qualification standards.”

Within a few years after the adoption of the 2001 Code of Conduct, the COQ moved to better align the 2001 qualification standards, which applied only to PSAOs, and the iron-clad requirement of professional qualification set out in Precept 2 of the Code, which applies to all actuarial services. These developments culminated in a watershed event in the evolution of actuarial qualification standards when, in 2008, after a five-year effort by the COQ that included several opportunities for the profession to comment, the Academy Board adopted a revision to the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States*.

The 2008 USQS revisions represented a true milestone in U.S. actuarial professionalism because they expanded the profession’s commitment to robust professional qualifications that the public can rely upon: The USQS broadened the definition of an SAO to an opinion expressed by an actuary in the course of performing actuarial services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed. This was a significant expansion of the USQS from applicability to PSAOs to all SAOs.

## Qualifications and the Real World

The 2008 USQS recognize that “qualification” is not an abstract concept—I am qualified (or not qualified) with respect to a specific set of actuarial services or area of practice. In the U.S. actuarial profession, qualification and competence have long required a minimum level of technical skill; practical real-world experience; familiarity with all the laws, regulations, and standards of practice that apply; and up-to-date knowledge of new techniques, rules, and market developments. These elements are not arbitrary, but simply reflect what is needed for any actuary to be able to serve the public in a competent manner.

Because the goal of the standards is to ensure that the public can rely on the work done by actuaries, the standards are written to focus on the final results that we present. The technical term “statement of actuarial opinion” is used for this; some might misunderstand this term to be limited to a formal statement filed with a regulator—nothing could be further from the truth. A simple rule of thumb is that if I perform work that someone else relies on *because I am an actuary*, then the USQS likely apply.

It is also important to note that once we get beyond basic education, each of these elements is dependent on the specific jurisdiction in which we provide actuarial services. Laws, regulations, and markets vary from country to country. I cannot assume that I am qualified to practice in China, for instance, simply because I am qualified to do health work here in the United States.<sup>5</sup>

It is worth noting that the profession is mature and highly specialized in the United States. Our qualification standards reflect this and focus on the specific type of work done by each actuary. This approach is more sophisticated than is common in the rest of the world.

## Meeting Our Responsibilities to the Public

Why are qualifications important? Because the work we do is important—it affects people’s lives. *Qualifications* matter because *competence* matters. The distinguishing mark of actuaries as professionals is that we recognize an ethical responsibility not just to our employers and clients, but to everyone who relies on the work we do. Competence is part of that responsibility.

The USQS are a vital tool in meeting our professional obligations. They help us understand what services we are competent to provide, and when we can responsibly offer actuarial advice. Being qualified is a key requirement of the Code of Professional Conduct; it is also an ethical imperative. By defining what competence, or qualification, means, the USQS help us meet our responsibilities to the public—individually and as a profession. Just as the Code creates the foundation we need to build a culture of professionalism, the USQS provide the framework we need to build a culture of competence.

Over its 50-year history, the Academy has developed our actuarial qualification standards from inchoate concepts to robust, objective, and officially recognized standards of professional competence. By doing so, the Academy has ensured continued respect for, and the well-earned favorable reputation of, actuaries—and it has played an important role in strengthening the web of professionalism.

## Actuarial Standards of Practice

SEVERAL YEARS AGO SALLY AND I added some rooms to our house and did a bit of remodeling. Our house is almost as old as I am, so extra work was needed to bring the affected parts “up to code.” Building inspectors scrutinized both the new construction and the remodeling several time to ensure that the work was done in accordance with the building code. It was an expensive and frustrating process.

Why do we have building codes? Are they intended to educate plumbers, electricians, and carpenters on how to do their jobs? They can help with that, but their fundamental purpose is to protect the public by ensuring that buildings are safe. They define what constitutes appropriate building methods.

While the actuarial standards of practice provide invaluable guidance to actuaries, I believe their greatest significance lies in protecting the public by defining what constitutes appropriate actuarial practice. In other words, standards of practice help fulfill the

profession’s responsibility to the public by indicating the appropriate procedures, techniques, and approaches to be used.

Without meaningful, binding standards of practice, the profession would not have been able to earn the public’s trust.

Of course, standards of practice are not enough—they’re part of a broader system. In the case of actuarial standards, they are just one part of our web of professionalism.



The Academy was established to weave this web of professionalism, which encompasses standards of conduct, qualification, and practice, as well as counseling and discipline. As we have already seen, standards of conduct and qualification evolved over time under the auspices of the Academy. Actuarial standards of practice—and the process for setting them—evolved in a similar fashion.

### **Building a Solid Foundation for Standards**

The Academy was established because visionary leaders recognized the need to create a self-regulating profession that could earn recognition by legislators and regulators. They knew we had to build a profession that would ensure that practicing actuaries were both competent and committed to serving the public. They had the insight to recognize that the profession could be built on a flexible, self-regulatory system, rather than rigid and prescriptive government regulation. Standards of practice are central to this mission.

The Academy began issuing the forerunners of today's standards, called *Recommendations and Interpretations*, in the mid-1970s. Over the next decade, *Recommendations and Interpretations* were issued covering financial reporting, pension plans, and dividends. Most were established in response to developments in the accounting profession or the passage of legislation, such as the Employee Retirement Income Security Act of 1974 (ERISA). As a result, while they provided detailed standards for very specific types of work, they did not provide comprehensive standards for any area of practice.<sup>6</sup>

By the early 1980s, Academy leadership recognized that the profession needed to do more to assure the public that actuaries are professionally accountable. At that time, the existing standards were few, ad hoc, and reactive. Describing his view of the situation as “actuarial anarchy,” Academy President Norm Crowder wrote, “Unlike other professions such as accounting, law, and medicine, we actuaries at present have no defined, comprehensive standards of practice.”<sup>7</sup> Walter S. Rugland, then an Academy vice president overseeing committees on accreditation and qualification, concluded, “It is our challenge to write standards we can live with before someone else writes us standards we cannot.”<sup>8</sup>

What was needed was a well-managed central authority with its finger on the pulse of the profession.

Following a decade-long conversation about the need for a more comprehensive approach to establishing standards of practice, Academy leadership created a Standards Implementation Committee (SIC) in 1983 to recommend a framework for an “Actuarial Standards Board.” The goal was to provide a more forward-looking, open, and formal process for setting standards of practice.

A comprehensive set of standards of practice was necessary to assure:

- **The public** that the profession serves it in an effective and responsible manner;
- **Regulators and legislators** that such standards exist and can be relied upon to protect the public;
- **Other related professions** that they can rely upon actuarial practice based upon standards; and
- **Actuaries** that there is a safe harbor within which they can operate with respect to techniques, applications, procedures, and assumptions, and that there is broad consistency across a broad spectrum of standards applicable to their practice.

A permanent standard-setting body was necessary to:

- Ensure that appropriate standards are developed and revised promptly in response to the needs of an ever-changing environment;
- Provide a basis for discipline of any member of the profession who practices in a manner inconsistent with the standards; and
- Obviate the need for any third-party regulation.

Successful development of comprehensive professional standards of practice, and their acceptance by the actuarial community, depended on broad-based support within the profession. The Academy’s outreach efforts were broad-based, determined, and engaging. Not only did Academy representatives meet with the governing boards of each of the other U.S.-based actuarial organizations, but they also waged an aggressive outreach campaign, exhorting members to participate in discussions on the need for standards. The Academy developed a presentation with the tongue-in-cheek title “Standards: Who Needs ’Em?” which was presented to 80 percent of the actuarial clubs in the United States.<sup>9</sup> These efforts created a groundswell of support for a well-managed, centralized standard-setting process.

The Standards Implementation Committee developed a standards-setting model based on independent decision-making and recommended creating the Interim Actuarial Standards Board (IASB) to test that model. The SIC recommended that standards be “tested by an operating committee, reviewed by a central management body, and exposed to the profession for scrutiny and comment. Moreover, existing standards will be continually reviewed, revised, and deleted and new standards developed to reflect advances in the state of the art.”<sup>10</sup> In addition, the SIC recommended that standards of practice be comprehensive by area of practice.

Following the SIC recommendations, the Academy Board of Directors created the IASB in October 1985 with the idea that it would exist for 18 months to three years. The reason for this was to allow the IASB to emulate as closely as possible the envisioned Actuarial Standards Board (ASB) and to allow for modifications, based on actual experience, of the recommended approach before establishing a permanent structure.

The IASB adopted its first standard of practice in 1987 (*Recommendations Concerning Non-Guaranteed Elements in Life Insurance and Annuity Contracts*) and launched a newsletter to publicize its accomplishments—*Boxscore*—which continues to this day.

### **Independence: A Necessary Condition for Unquestioned Integrity**

The IASB and the ASB were housed within the Academy to maintain an appropriate connection to the profession while preserving the independence of the nine-member board’s decision-making process. Various organizational structures were considered. The one that was adopted provided “substantive and procedural independence within the ... Academy structure”<sup>11</sup> to ensure “the ability of the ASB to produce and maintain relevant actuarial standards whose contents are of unquestioned integrity.”<sup>12</sup> The SIC believed—and the Academy Board agreed—that the optimal level of independence could be achieved by housing the ASB within the Academy and providing it with decisional and financial autonomy, while still making it subject to an appointment and budget process.

Housing the ASB in the Academy was a natural outgrowth of the Academy's role as the national association for the United States. This was not an ad hoc decision made simply because the Academy provided a convenient administrative home. The Academy's role extends beyond the establishment of the standard-setting body; it has an ongoing commitment to protect the independence and integrity of the ASB decision-making process. The ASB operates as an autonomous entity within the Academy. But it has no independent legal existence—it is a part of the Academy. This means that any legal challenges to the ASB must be brought against the Academy, and the Academy defends against them. It operates in accordance with Academy policies and is supported administratively by Academy staff.

The ASB was formally established in 1988 by a vote of the membership to change the Academy bylaws, with an overwhelming 75 percent of the votes cast in favor. As described in the Academy's bylaws, the ASB's purpose is to expose, promulgate, and publish standards of practice in all areas of actuarial practice, within its sole discretion. The creation of the ASB was a singular achievement resulting from nearly a decade of intense focus and deliberation. By establishing a mature process for developing comprehensive standards of practice, it was also a key milestone in achieving the Academy's mission of gaining recognition for the U.S. actuarial community as a self-regulating profession worthy of the public's trust.

### **Built to Last: The ASB Today**

The actuaries who established the ASB got it right; the ASB has the same organizational structure today that it had at its founding in 1988. This structure has successfully preserved the independent decision-making necessary to ensure the integrity of our standard-setting process. The ASB's authority remains independent of the vested commercial interests of any organization, industry, or employer.

Since its inception, the ASB's purpose has been to set standards for appropriate practice for the United States—and it has successfully done so.<sup>13</sup> Fifty standards have been issued to date, and you can keep up to date on current and upcoming standards with the quarterly *Boxscore*, issued by the ASB shortly after each of its meetings. Most standards provide guidance for specific areas of practice, but several general standards apply to every practice area (*Risk Classification*, *Data Quality*, *Credibility Procedures*, and *Actuarial Communications*, to name a few). Just as envisioned, the body of standards has grown and evolved over the years, and those that became obsolete were repealed to keep pace with changes in actuarial practice, law, and the business environment.

Most of these standards of practice are principle-based rather than narrowly prescriptive. Because they establish principles to guide actuaries, the standards do not replace professional judgment. Instead, they recognize that different circumstances may require different applications of actuarial principles.<sup>14</sup> Proper disclosures are essential for compliance with the standards. Each standard tells the actuary what should be disclosed for a particular assignment or under particular circumstances. These disclosures are vital to ensuring that the end user fully understands the actuarial communication and uses the information in it appropriately.

The transparency of the ASB's process keeps it accountable to both the profession and the public. Meetings are open to all. Draft standards are exposed for public comment. All stakeholders have an opportunity to weigh in, and all comments are carefully considered. This transparent and deliberative process is necessary to protect the integrity and legitimacy of our professional standards.

### **Serving the Public: A Bulwark of Professionalism**

Standards of practice are a critical strand in the web of professionalism. The ASB has produced a strong body of standards, which are under constant review and revised when necessary to keep up with developments in actuarial practice, law, and the business environment. These standards help assure the public that actuaries are committed to providing professional services that are done in an appropriate manner and can be held accountable for their work. The integrity and transparency of the ASB will ensure that appropriate actuarial standards of practice will serve the profession and the public well into the future.

The Academy's role in establishing and fostering the ASB and helping it to flourish as a bulwark of professionalism is at the heart of our mission. The vision of Academy leaders in past decades has given us a strong standard-setting body and set of standards, but for the standards to be meaningful, they must be enforced. And that brings us to the next and final strand of the web of professionalism: professional counseling and discipline.

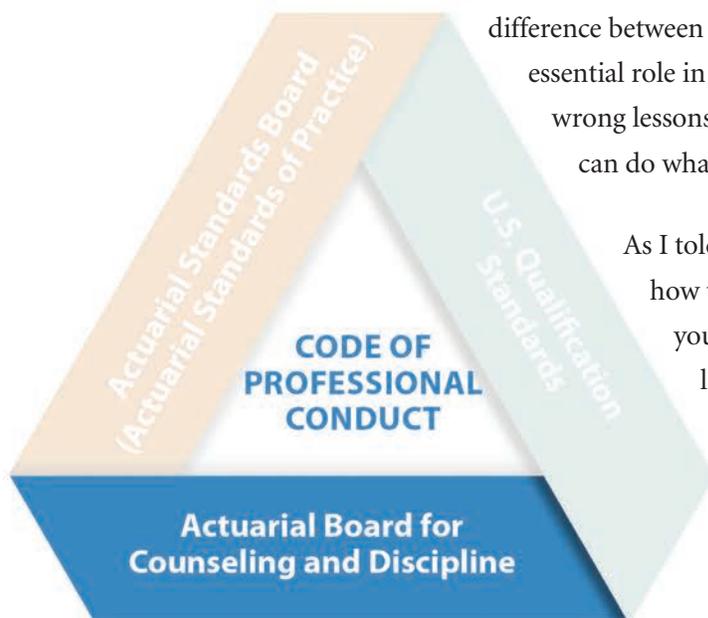
## Counseling and Discipline

**I WAS A BIG BROTHER.** One of the reasons God created big brothers was to annoy little sisters. I was good at my job.

What frustrated Amy the most was when I managed to both annoy her and get away with it. As any big brother knows, the very best technique for this is “the look.” It works especially well in the back seat of a car, where you’re both confined to the same small space. The beauty of this trick is that it doesn’t actually involve doing anything—so there’s nothing specific to punish. Yet every parent with more than one child has heard “He’s looking at me ... make him stop looking at me!” Sometimes Mom or Dad would get frustrated enough that they would tell me to “stop looking at her!” But that’s a weak response at best, and once things had escalated to that point, all it took was a quick furtive glance to keep the fun going.

I loved to win this game—but it wasn’t good for me. The conflicts between brother and sister, older and younger, are a normal part of childhood. These interactions help us learn how to relate to others, and prepare us for healthy social relationships as adults. We learn that the way we treat others affects the way they respond to us, and that there are consequences to our actions. We learn about limits, and we come to understand the difference between honesty and cruelty, teasing and mockery. Parents have an essential role in guiding the process—and “winning” the game teaches the wrong lessons for the future. It suggests that if you’re clever enough, you can do what you want and escape the consequences.

As I told my own children when they were young, you have to learn how to control yourself—if you don’t, someone else will do it for you. One way or another, you will be controlled. If we don’t learn this lesson as children, with the help of parents and teachers, we’ll learn it the hard way as adults, most likely from police and the courts.



This principle is true for professions as well as for individuals. In the mid-20th century, the financial security of tens of millions of Americans depended on the work of actuaries, but actuaries were largely unregulated. That had to change, because it put the public at risk. Our profession had a simple choice. We could regulate ourselves, or wait for the government to do it for us. We made the mature decision, to control ourselves by creating a self-regulating profession—and the Academy was established to create the framework for self-regulation in the United States.

The Code of Professional Conduct, the U.S. Qualification Standards, and the actuarial standards of practice are essential elements of our framework for self-regulation, our web of professionalism. But they aren't enough. They provide a structure for understanding what we should do as professional actuaries. "Do the right thing" is a worthy slogan. But sometimes people do the wrong thing—whether out of ignorance, carelessness, greed, or malice. A credible disciplinary process is essential to maintaining the public's trust—and the right to regulate ourselves.

Over the past three sections, we've looked at the strands that the Academy has woven into the web of professionalism—the Code of Professional Conduct, the qualification standards, and standards of practice. This leads us to our fourth and last strand, the profession's discipline process for encouraging and monitoring compliance with those standards through the Actuarial Board for Counseling and Discipline (ABCD).

The leaders who established the Academy understood that things will inevitably go wrong at times, and that our profession must demonstrate that it can—and will—counsel and discipline its own when necessary. Because if we don't do it ourselves, someone else will inevitably step in and do it for us.

### **Early Discipline Efforts**

In the Academy's early years, our Professional Conduct Committee answered "any inquiries with respect to professional conduct of Actuaries of the Academy."<sup>15</sup> By 1975 this committee had evolved into the Committee on Discipline, which considered "questions that arise about the conduct of a member in his relationship to the Academy or its members, or in professional practice, or affecting the interests of the profession."<sup>16</sup> Each of the other actuarial organizations had similar committees to enforce their standards and discipline their members.

Before the Actuarial Standards Board (ASB) was established in 1988, the profession had not yet developed a robust set of common practice standards. As a result, most investigations were focused on questions of qualification and conduct rather than practice, and were treated mainly as “ethical” matters rather than “practice” matters.<sup>17</sup> An actuary with a question about applying practice standards in a particular situation was usually referred to the committee responsible for developing such standards.<sup>18</sup> The development by the ASB of a more robust and comprehensive set of standards of practice intensified the need for both a counseling process that could help actuaries understand how to appropriately apply the standards and a discipline process to protect the public and ensure compliance.

A second concern arose from the often overlapping memberships of the various U.S. actuarial organizations, which sometimes resulted in multiple investigations of the same case by different organizations. Because of the sensitivity of the issues involved, these organizations imposed confidentiality requirements on their discipline committees. As a result, “Complaints of alleged violations had to be directed to each organization of which the actuary was a member. This often proved confusing to the public and regulators and, in some cases, resulted in a complaint being filed with only one of the several organizations to which the actuary belonged.”<sup>19</sup>

### **In the Footsteps of the ASB: An Independent Structure**

The Academy led a decades-long “standards movement,” which culminated in the formation of the ASB on an interim basis in 1985. The ASB was established on a permanent basis through an amendment of the Academy bylaws in 1988. Once the decision to establish a formal standard-setting body had been made, the next logical step was to develop a body to counsel actuaries, investigate those who appeared to have violated the codes of professional conduct or standards of practice, and—when a thorough investigation confirmed that a violation had occurred—forward the results of the investigation and a discipline recommendation to each of the organizations of which the actuary was a member. As early as 1984, the Academy Board of Directors had indicated that the standards issued by the planned standard-setting body should be enforced.<sup>20</sup> The first ASB chairperson (and chairperson of the interim ASB), Ronald Bornhuetter, made the case for a professional discipline body more bluntly: “Unless the profession is prepared to enforce practice standards, the ASB is wasting its time.”<sup>21</sup>

The realization that standards would mean little without an effective compliance and counseling mechanism was sinking in.

As we saw in the previous section, the profession spent years discussing the structure of the ASB. Those discussions concluded that the optimal level of independence could be achieved by housing the ASB within the Academy, but providing its nine-member board with decision-making autonomy. When the time came to create the ABCD, the same considerations applied. Standards of practice—and judgments regarding whether they’ve been applied appropriately—must recognize the specific laws and regulations that apply in a country, so a national association is the most natural home. To be credible, any investigatory or disciplinary structure must be insulated from industry and commercial interests. As the national association for the United States, the Academy is not only free from such interests, but has an ongoing commitment to protect the independence and integrity of the ABCD’s investigative and decision-making process. The ABCD operates as an autonomous entity within the Academy. But, it has no independent legal existence—it is a part of the Academy.

Like the ASB, the ABCD is housed within the Academy and receives Academy staff support. Like the ASB, its decisions are made autonomously; the Academy Board and staff do not make decisions for the ABCD regarding which complaints should be investigated, how to conduct those investigations, or what disciplinary recommendations to make. Finally, like the ASB, it has nine members who are broadly representative of all areas of practice and selected by a committee composed of the presidents and presidents-elect of the five U.S. actuarial organizations.

### **Key Responsibilities and Attributes**

The ABCD was formally established in 1991 by a vote of the membership to change the Academy bylaws. By establishing a formal process for investigating actuarial misconduct and recommending appropriate discipline to the various U.S.-based actuarial organizations, the Academy achieved a key part of its mission—to gain widespread recognition that the U.S. actuarial community was capable of regulating itself effectively, and therefore was worthy of the public’s trust.

The visionaries who established the ABCD wanted to do more than just strengthen the disciplinary process—they wanted to prevent problems before they occur by helping actuaries understand how to apply the standards and meet their professional obligations. They believed that counseling was essential. As one former ABCD chairperson put it, “Although discipline is appropriate in some cases, the ABCD believes that individual actuaries, the profession as a whole, and the public are best served by a process that focuses primarily on teaching good practice rather than on punishing unintended mistakes.”<sup>22</sup> In addition to investigating potential violations and recommending discipline, the ABCD was also given the ability to respond to requests for guidance, mediate disputes, and counsel actuaries. Let’s take a closer look at each of these.

- **Responding to requests for guidance (RFGs) from actuaries.** The ABCD provides guidance to actuaries who ask for help interpreting the Code of Professional Conduct, the qualification standards, or the standards of practice. In 2015, the ABCD responded to 96 RFGs, the most ever in a calendar year. In 2016, they were on track to set a new record. In most cases, RFGs are answered by an individual ABCD member, usually through a conversation. These conversations are completely confidential. In that case, the response represents the individual ABCD member’s opinion, not necessarily the views of the ABCD as a whole. In other cases, more formal responses are requested. In such cases, the ABCD as a whole considers the question, and, if appropriate, provides written formal guidance. Most responses are provided in a few days. In this way, the ABCD offers guidance that is thorough and timely.
- **Mediating disputes.** The ABCD has the ability to mediate disputes between actuaries or between actuaries and members of the public concerning the professional conduct of the actuaries.
- **Investigating complaint.** The ABCD may investigate complaints concerning alleged violations of the Code of Professional Conduct—and, by extension, the standards of qualification and practice—raised against any actuary who is a member of an organization that has delegated authority to the ABCD to conduct an investigation on that organization’s behalf. Shortly after the ABCD began operating, ABCD Chairperson Norm Crowder underlined the importance of this delegation of authority. “That delegation to investigate is the key. The ABCD simply makes the process more efficient, more uniform, more fair, and more coherent. And, it avoids duplicative investigations,” he said.<sup>23</sup>

After an investigation, the ABCD may dismiss the matter, counsel the actuary, or recommend disciplinary action to each organization of which the subject actuary is a member.

- **Counseling actuaries.** Counseling has always been one of the ABCD’s most important functions. Counseling is not discipline, but is often used to educate actuaries who may have inadvertently violated the standards. Former Academy President Harry Garber explained the importance of the ABCD’s counseling function: “Ultimately, counseling is a much more powerful tool than discipline. Discipline is what you want to apply when all else fails. We wanted to have the ability, when individuals had unknowingly violated standards, to make sure that they understood what they should be doing. If people who know better continue to violate standards, we can always resort to punitive actions.”<sup>24</sup>
- **Recommending discipline.** If, after conducting an investigation, the ABCD decides discipline is warranted, it may recommend one of several types of discipline: private reprimand (if permitted by the bylaws or rules of the participating organization), public reprimand, suspension, or expulsion. The ABCD makes a discipline recommendation to the organizations of which the subject actuary is a member, but it does not impose discipline. It is up to the organizations to impose discipline, and they may implement the ABCD’s recommendation as-is, modify it, or decline to impose any discipline at all.

ABCD investigations are conducted on a confidential basis. Confidentiality is important for several reasons. As former Academy President Lawrence Johansen wrote in 2001, “Confidentiality ... protects an actuary’s professional reputation and allows the actuary to benefit from counseling or the dismissal of a complaint without suffering public embarrassment. Those benefits would be lost if all inquiries were conducted publicly.”<sup>25</sup>

Confidentiality is maintained throughout the ABCD process. It is only when a case results in a recommendation of discipline that the ABCD passes information to the organizations of which the actuary is a member. It is then up to each organization to decide whether to impose discipline, and whether to make that discipline public. The Academy has long published brief discipline notices, but in 2009 it began publishing more detailed discipline notices to improve transparency and give actuaries more insight into the types of behavior or practices that may result in discipline.

Dealing with disciplinary matters is never pleasant, but it is an essential part of any self-regulating profession. It's also a shared responsibility. Precept 13 of the Code of Professional Conduct requires an actuary “with knowledge of an apparent, unresolved, material violation of the Code by another Actuary” to try to resolve it through discussion with the other actuary or to disclose it to the ABCD. Precept 14 requires actuaries to “respond promptly, truthfully, and fully to any request for information by, and cooperate fully with” the ABCD. In this sense, the Code makes each actuary the “cop on the beat” and “material witness,” giving every actuary a role to play in the self-regulation of the actuarial profession.

The work of the ABCD is essential to help assure the public that actuaries are committed to providing professional services in an appropriate manner—and can be held accountable for their work. The ABCD's independence and integrity helps ensure that actuaries will be held to appropriate standards of conduct, qualification, and practice, strengthening the public's trust in the profession.

### **A Call to Action: Make Professionalism Your Culture**

The Academy provides the professionalism infrastructure—the web of professionalism—for the U.S. actuarial community. This paper has discussed each strand of that web in detail, finishing with the ABCD, the foundation for the profession's disciplinary process. Taken together, the interlocking standards and institutions that we've discussed address all aspects of our ethical responsibility to the public. They represent a common commitment to serving the public and provide the protections necessary to earn the public's trust.

The importance of the Academy's role in weaving a strong and resilient web of professionalism cannot be overstated. The vision of Academy leaders in past decades has given us a unified Code of Professional Conduct, standards of qualification that apply to any actuary issuing a statement of actuarial opinion in the United States, a strong standard-setting body and set of practice standards, and a counseling and investigatory body to help actuaries meet those standards—and to provide the foundation for disciplining them when they don't.

But standards and institutions are not enough. Professionalism is not just mechanical compliance with a checklist of technical rules, and it's certainly not something that can be "outsourced" to an institution in Washington, D.C. It's a personal recognition of the ethical responsibility we have to everyone who is affected by our work, and a moral commitment to doing the right thing. The standards and institutions are tools that help us live up to that commitment. Sometimes doing the right thing can be hard. That's why we owe it to each other to foster a culture of professionalism.

I'm proud of our profession—its history, its institutions, and most of all our commitment to honoring the trust the public has placed in us. This commitment is at the heart of our Code of Professional Conduct, the reason for our standards of practice, and the reason for a disciplinary process as well. It's what makes us professionals.

## Endnotes

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