



AMERICAN ACADEMY *of* ACTUARIES

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Actuaries: Professionalism, Expertise, and Financial Stability

Presentation to
Financial Stability Oversight Council
Nonbank Designations Committee
Insurance Industry Working Group

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Presenters

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American Academy of Actuaries

- The American Academy of Actuaries:
 - 18,500+ member professional association that serves the public and the U.S. actuarial profession
 - Assists public policymakers by providing leadership, objective expertise, and actuarial advice on risk and financial security issues
 - Sets qualification, practice, and professionalism standards for U.S. actuaries



Actuaries

- Quantify and assist in managing risk
- Apply expertise and knowledge to a wide range of business problems, including:
 - Evaluating the long-term financial implications of companies' decisions
 - Developing new ways to manage risk
 - Estimating the costs of uncertain future events



Actuaries: Education and Specialization

- Come from all educational backgrounds and work across the sectors of the economy
 - Primarily work in financial services focusing on Insurance, Retirement Systems and Public Sector Programs (e.g., Social Security, Medicare/Medicaid)
- Specialize in certain functions and practice areas
 - Functions: valuation, pricing, model creation, risk-based capital, financial reporting, audit functions, etc.
 - Practice areas: life, health, property/casualty, pensions



Actuaries: Education and Specialization

- U.S. actuaries typically earn an actuarial credential by passing a series of exams
 - Credentials include those given by the Society of Actuaries (SOA) and the Casualty Actuarial Society (CAS); there is also an Enrolled Actuary (EA) credential (solely for working on ERISA pension plans) sponsored by the IRS
 - Takes several years to achieve
- Exams cover a range of insurance, financial, and risk-related topics including:
 - Interest theory, contingencies, specialized tracks on different lines of insurance, enterprise risk management (ERM), investments, and retirement benefits
- Qualification to practice
 - The Academy establishes the Qualification Standards for actuaries practicing in the U.S.



Actuaries and Policymakers

- Actuaries are experts in recognizing and analyzing risk and modeling financial security programs, which in turn
 - Helps them protect the solvency and stability of domestic financial systems; and
 - Allows them to provide vital feedback on the feasibility of proposals/policies under consideration
- The Academy urges Federal agencies and lawmakers to involve actuaries in the development and implementation of financial stability policies that impact insurance companies and pension plans



Professionalism

- Actuaries must maintain high standards of professionalism and ethics in order to maintain their credentials with the primary U.S. actuarial organizations. They must:
 - Uphold the **Code of Professional Conduct**;
 - Adhere to **Actuarial Standards of Practice (ASOPs)**;
 - Meet the **U.S. Qualification Standards (USQS)** to issue actuarial opinions; and
 - Fulfill professionalism and continuing education requirements of the relevant organizations.



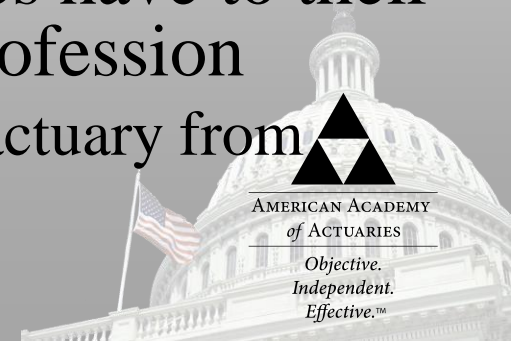
Professionalism: Organizations

- There are five major U.S.-based actuarial organizations:
 - American Academy of Actuaries
 - establishes standards of conduct, practice, and qualification
 - American Society of Pension Professionals and Actuaries (ASPPA) and the ASPPA College of Pension Actuaries (ACOPA)
 - trade group of Third-party Pension Administrators (TPAs)
 - CAS (basic examinations)
 - Conference of Consulting Actuaries
 - continuing education to consultants, primarily pension
 - SOA (basic examinations)



Professionalism: Code of Conduct

- All 5 of the U.S.-based actuarial organizations have adopted the same Code of Professional Conduct
- The Code:
 - Requires members of those U.S. organizations to adhere to ASOPs and the USQS promulgated by the Academy
 - Identifies the professional and ethical standards required of actuaries who belong to the relevant organizations
 - Sets forth what it means for an actuary to act as a professional
 - Identifies the responsibilities that actuaries have to their clients, employers, and to the actuarial profession
 - Including stressing the independence of the actuary from their employer



Professionalism: ABCD

- Actuarial Board for Counseling and Discipline (ABCD) is responsible for considering complaints alleging violations of the Code
 - Precept 13 of the Code requires an actuary with knowledge of a violation of the Code by another actuary to resolve the violation or to disclose it to the ABCD
 - When the ABCD determines an actuary has materially violated the Code, it recommends discipline action be taken by the relevant actuarial organization(s)
- Notices of public discipline of Academy members are available on the Academy's website



Professionalism: Qualification Standards

- The USQS specify requirements for basic education, experience, and continuing education that must be met by actuaries issuing statements of actuarial opinion (SAOs)
 - The USQS are proposed by the Academy's Committee on Qualifications (COQ) and adopted by the Academy's Board



Professionalism: Qualification Standards

- Each actuarial practice area has applicable qualification standards to meet when issuing an SAO
 - There are specific qualification standards to actuaries issuing SAOs pursuant to the annual statement instructions of the National Association of Insurance Commissioners (NAIC), or other regulatory requirements



Professionalism: ASB and Actuarial Standards

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



Professionalism: Disagreements

- If an actuary does not agree with the position of his/her principal, the Code and ASOPs provide support
 - Cannot violate law
 - Cannot violate Code or ASOPs without disclosure
 - Can submit a request for guidance from the ABCD
 - In the event an actuary believes another actuary is in violation, there is a duty to report (Precept 13)
- However, provisions of the Code and ASOPs only apply to the actuary, not the company or client



Professionalism: NAIC

- The NAIC develops guidance materials for insurance regulation at the state level such as:
 - Model laws and regulations
 - Actuarial Guidelines (AGs), which provide guidance on how to implement certain model laws and regulations
 - Regulatory guidance on SAOs
 - Own Risk and Solvency Assessment (ORSA) Guidance Manual
- Actuaries are often required to follow these guidelines as part of their practices



Actuaries and Financial Stability

- The U.S. actuarial profession plays a prominent role in ensuring the solvency and stability of domestic financial systems. It:
 - Contributes to international insurance and retirement system public policy; and
 - Supports sound financial and insurance systems through its professionalism and strong focus on the measurement and management of risk.



Actuaries and Financial Stability

- These systems:
 - Help individuals and businesses protect themselves against uncertain future events and ensure their financial security
 - Support the public interest by providing robust private market mechanisms so that public social safety net systems are not overburdened
- To support these efforts, the profession has developed numerous ASOPs, practice notes and other material to provide guidance and information on issues of actuarial concern

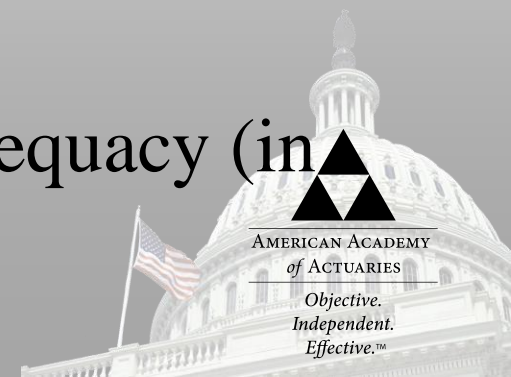
Appointed Actuaries

- The NAIC has in place a Property & Casualty Actuarial Opinion Model Law, an Actuarial Opinion and Memorandum Regulation, and Health Annual Statement Instructions providing for requirement that a qualified Appointed Actuary sign annual opinions, filed with state regulators on the adequacy of reserves of insurers.
- Qualification is defined according to adherence to the Academy's Qualification Standard for Statements of Actuarial Opinion which spells out required basic and continuing education and experience requirements.
- The Academy also provides continuing seminar content to qualify actuaries for signing Life & Health Statements, as well as a seminar for P&C actuaries to remain current with their qualification to sign opinions. The Academy Councils also provide practice notes for appointed actuaries.

Solvency

- Threats to financial stability:
 - Under-pricing
 - Under-reserving
 - Poor capitalization
 - Weak risk management

- Actuarial professionalism helps:
 - Actuaries must be qualified to do pricing, reserving, and risk management tasks based on exams, experience, and continuing education
 - ASOPs on pricing, reserving, capital adequacy (in development), and ERM



Solvency

- Comparison to banking requirements:
 - UK Charter Banker Professional Standards Board has a Code of Conduct and two qualification-focused standards to date; participation is voluntary
 - We are unaware of any US-specific professional standards
 - No professional standards specific to technical practices



Model Risk

- Threats to financial stability:
 - Inaccurate data
 - Inaccurate models and weak model controls
 - Models not fit for purpose
- Actuarial professionalism helps:
 - ASOP on data quality and one under development on modeling
- Comparison to banking requirements:
 - SR 11-7 imposes requirements for models, but applies to the entity, not the profession/individual



Investor Communications/Comparability

- Threats to financial stability:
 - Inaccurate financials/communications
 - Focus on shareholders at the expense of good risk management

- Actuarial professionalism helps:
 - Code of conduct – cannot mislead
 - ASOP 10 on GAAP accounting analysis
 - ASOP 21 on assisting auditors
 - ASOP 41 on required communications to users



Investor Communications/Comparability

- Comparison to banking requirements:
 - Significant disclosure requirements but they apply to the entity, not the profession/individual
 - UK Charter Banker Professional Standards Board has a Code of Conduct and two qualification-focused standards to date; participation is voluntary
 - No standards requiring disclosures by the banker to users of the banker's work



Market Conduct/Pricing Adequacy

- Threats to financial stability:
 - Under-pricing resulting in financial loss
 - Inappropriate pricing/market conduct resulting in reputational risk, loss of customers, litigation, fines
- Actuarial professionalism helps:
 - ASOPs on pricing
 - Practice notes to support education in new/evolving areas
 - Code prevents misleading activity and conflicts of interest, requires reporting of inappropriate activity

Market Conduct/Pricing Adequacy

- Comparison to banking requirements:
 - UK Charter Banker Professional Standards Board has a Code of Conduct and two qualification-focused standards to date; participation is voluntary
 - No U.S.-specific standards
 - No standards for profession/individuals specifically focused on market conduct



Retirement Security

- Threats to financial stability:
 - Significant pension plan underfunding
 - Failure to provide benefits to retirees
- Actuarial professionalism helps:
 - Pension-related standards of practice
 - Discipline process for inappropriate practice



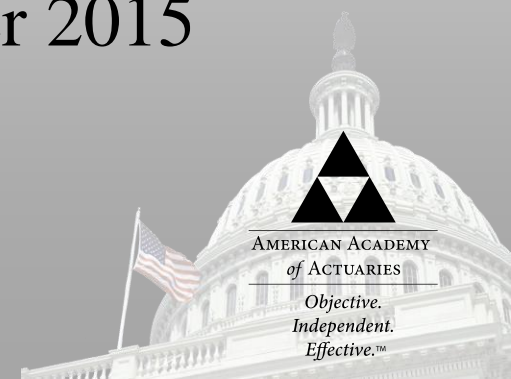
Current Pension Standards

- Current pension standards of practice include:
 - ASOP 4 – Measuring Pension Obligations and Determining Pension Plan Costs or Contributions
 - ASOP 6 – Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions
 - ASOP 27 – Selection of Economic Assumptions for Measuring Pension Obligations
 - ASOP 34 – Actuarial Practice Concerning Retirement Plan Benefits in Domestic Relations Action
 - ASOP 35 – Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations
 - ASOP 44 – Selection and Use of Asset Valuation Methods for Pension Valuations



Pension Risk Standard

- The ASB is reviewing a draft of newly-proposed Actuarial Standard of Practice: Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions.
- The ASB's Pension Committee has been reviewing comments on an existing exposure draft, has been making revisions, and plans to present a second exposure draft to the ASB at its December 2015 meeting.



Proposed Pension Risk ASOP

Covers issues such as:

- Risks to be Assessed
- Assumptions for Assessment of Risk
- Methods for Assessment of Risk
- Assessment of Risk
- Plan Maturity Measures
- Quantitative Assessment of Risk for Large Plans
- Disclosures
- Deviation from Guidance in the Standard
- Confidential Information



Conclusion

- Actuaries must be qualified
 - Required education to obtain credentials
 - Experience and basic and continuing education to be qualified to perform the work
- Actuaries must operate in a professional way through the Code of Conduct
- There are specific standards (nearly 50 in all) that cover significant areas of practice
- Enforced through Counseling and Discipline process, including peer reporting of violations
- Supported by significant additional educational materials





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Questions?



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