



**SOCIETY OF  
ACTUARIES**

Actuarial Society of New York  
Annual Meeting

# Professionalism & SOA Update

Mike Lombardi  
FSA, CERA, FCIA, MAAA  
SOA President





**Mission:**

Through education and research, the SOA advances actuaries as leaders in measuring and managing risk to improve financial outcomes for individuals, organizations, and the public.

**Vision:**

Actuaries are highly sought-after professionals who develop and communicate solutions for complex financial issues.



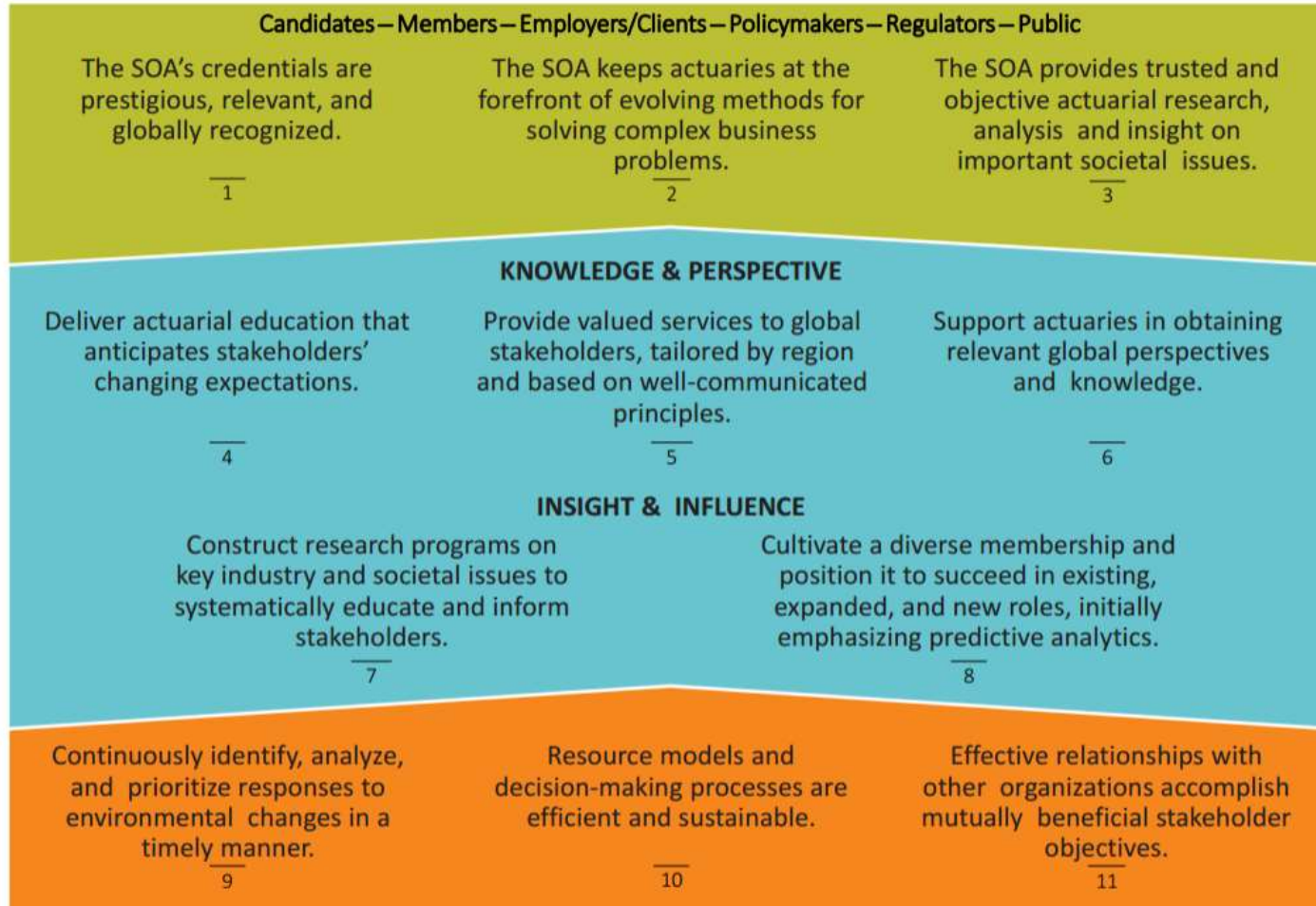
**Stakeholders**



**Strategies**



**Organizational Capabilities**





# Curriculum Changes



# Applications of Actuarial Skills





# Certified Actuarial Analyst



# Professionalism



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# What is an Actuary?

A word cloud of terms associated with the profession of an actuary. The words are arranged in a roughly circular pattern, with some words appearing in a larger font size than others. The words include: Risk, Manager, Math, Analytical, Business, Growth, Government, Professionals, Opportunity, Creative, Research, Finance, Public Security, and Leader. The word 'Service' is also present but smaller and partially obscured.

Risk  
Manager  
Math  
Analytical  
Business  
Growth  
Government  
Professionals  
Opportunity  
Creative  
Research  
Finance  
Public Security  
Leader  
Service



# Another Definition

An actuary is a professional trained in evaluating the current financial implications of future contingent events.





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# What Makes a Profession?

- Advanced training or education
- Widely recognized associations
- Serving in the public interest in an objective fashion
- Code of conduct

# Professions with Longest History<sup>(1)</sup>

- Surveying
- Medicine
- Actuarial Science
- Law
- Dentistry
- Civil Engineering

(1) Perks, R.W.(1993): *Accounting and Society*. Chapman & Hall (London)



# Advanced Training or Education

Our designations help define us as a profession.



# Widely Recognized Associations

- Casualty Actuarial Society since 1914
- Society of Actuaries since 1949 (ASA in 1889)
- Canadian Institute of Actuaries in 1965
- American Academy of Actuaries in 1965

# Serving in the Public Interest

- What we do matters!
- Public depends on us for the protection of:
  - Their retirement
  - Their health
  - Their personal and family financial security
  - Their property

# Code of Conduct

- Applies to all actuaries – life, health, pension, casualty – that are members of any of the five U.S.-based actuarial organizations
- Effective January 1, 2001
- Identifies the responsibilities that actuaries have to the public, to their clients and employers and to the actuarial profession
- Actuaries will comply with this code; violators subject to counseling and discipline procedures
- Actuaries also subject to conduct/standards prescribed by local jurisdictional actuarial organization
- If in conflict with a law, laws supercede

*The slides that follow are my own interpretation and are not intended to be definitive.*



# Precept 1: Be Ethical

An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession.

## Precept 2: Be Qualified

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.

# Precept 3: Follow the ASOPs

An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.

# Precept 4: Clear Communication

An Actuary who issues an Actuarial Communication shall take appropriate steps to ensure that the Actuarial Communication is clear and appropriate to the circumstances and its intended audience, and satisfies applicable standards of practice.



# Precept 5: Identify Principal

An Actuary who issues an Actuarial Communication shall, as appropriate, identify the Principal(s) for whom the Actuarial Communication is issued and describe the capacity in which the Actuary serves.

# Precept 6: Disclose Compensation

An Actuary shall make appropriate and timely disclosure to a present or prospective Principal of the sources of all direct and indirect material compensation that the Actuary or the Actuary's firm has received, or may receive, from another party in relation to an assignment for which the Actuary has provided, or will provide, Actuarial Services for that Principal.

# Precept 7: Conflict of Interest

An Actuary shall not knowingly perform Actuarial Services involving an actual or potential conflict of interest unless:

- Actuary's ability to act fairly is unimpaired;
- There has been disclosure of the conflict to all present and known prospective Principals whose interests would be affected by the conflict; and
- All such Principals have expressly agreed to the performance of the Actuarial Services by the Actuary.

# Precept 8: Don't Mislead

An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties.

# Precept 9: Confidentiality

An Actuary shall not disclose to another party any Confidential Information unless authorized to do so by the Principal or required to do so by Law.

# Precept 10: Courtesy and Respect

An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.

# Precept 11: Advertising

An Actuary shall not engage in any advertising or business solicitation activities with respect to Actuarial Services that the Actuary knows or should know are false or misleading.

# Precept 12: Titles / Designations

An Actuary shall make use of membership titles and designations of a Recognized Actuarial Organization only in a manner that conforms to the practices authorized by that organization.



# Precept 13: Report a Violation

An Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary should consider discussing the situation with the other Actuary and attempt to resolve the apparent violation.

## Precept 14: Cooperate with ABCD

An Actuary shall respond promptly, truthfully, and fully to any request for information by, and cooperate fully with, an appropriate counseling and disciplinary body of the profession in connection with any disciplinary, counseling, or other proceeding of such body relating to the Code.

# Qualification Standards

- American Academy of Actuaries standards apply to everyone practicing as an Actuary in the U.S., even if not in the Academy
- General and Specialty track standards
- Specific Qualification standard

# Professionalism and Cultivating Opportunities

- Banking
- Health care efficacy
- Predictive modeling
- Energy demand forecasting
- Human resources
- Environmental sustainability

# Most Frequently Violated Qualification Standard Provision

5. I, [Name], am [Position] for [Company]. I am a member of the American Academy of Actuaries [or other organization] and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Applies to All SAOs, not just PSAOs

# Some Real Examples

- What if I make a mistake?
- Price optimization
- Genetic testing
- Using credit score to determine customer service
- Predictive modeling using proxies

# Case Study #1

- Ken is an actuarial consultant with XYZ Consulting Group. He recently had a conversation with Bud, one of his longstanding clients.
- Bud: says
  - “Ken, I got this market trends report from ABC, who you know we work with for our marketing, and I can’t for the life of me figure out how to interpret the graph on page 15.
  - I asked my guy at ABC, and he tried to explain it to me, but it still doesn’t make sense. I can’t ask him again.
  - You have a way of explaining this complicated stuff in a way that I can understand; can you take a look and interpret it for me?”

# Case Study #1 (continued)

- Ken is very familiar with ABC, who he considers a competitor for XYZ despite the fact that ABC is not an actuarial firm.
- In order to help Ken understand the graph on page 15, Ken would need to read the full market trends report. He would love to get his hands on this information, but something about it doesn't feel right.



# Case Study #1 (continued)

- On the one hand, Precept 1 of the Code of Professional Conduct is about professional integrity, and it would seem to caution against reading the report. If the roles were reversed, Ken would not want ABC to be able to read a similar report prepared by XYZ for a client's use.
- On the other hand, ABC is not an actuarial firm, so does the Code apply? In addition, Ken did not seek out the report; is it his fault if it found its way to him unintentionally? Moreover, if he doesn't look at it, he'll be passing on a chance to help his client.

# Case Study #1 Questions

- To what extent does the Code of Professional Conduct apply if one of the parties involved is not an actuary?
- Does Ken have an obligation to share his concerns with anyone else at his firm? With his client? With ABC?
- What should Ken do?

# Case Study #4

- Karim is pricing a new LTC product for Elemeno P Insurance Company. Karim developed his best estimate assumptions using pertinent experience from Elemeno P's previous LTC business.
- At the direction of his boss, Karim has added significant PADs to the assumptions in pricing, using 1% lower interest, 20% extra claims, 50% of expected lapses, and 75% of expected mortality.
- Citing LTCL's history, Karim's boss suggests adding another 20% PAD on top of the specific assumption PADs.

## In light of ASOP #18 section 3.3

“In developing such recommendations, the actuary should not use assumptions that are unreasonably optimistic. If a premium rate schedule is described by the actuary as applicable for the lifetime of the insured, the actuary should use assumptions that are consistent with that description and that have a reasonable probability of being achieved. In particular, the actuary should not rely on anticipated future premium rate increases to justify the selection of unreasonably optimistic assumptions when recommending premium rates. On the other hand, the actuary should not use assumptions that are unreasonably pessimistic. It may be appropriate, however, to include provision for adverse deviation in assumptions.”

## Case Study #4 (continued)

- Karim expresses his concern the product will not sell. His boss replies that this would not disappoint the company at all.
- Discuss the work of Karim and the direction of his boss.

# Case Study #6

- Jane is an actuarial manager working at a mid-size insurance company. She is responsible for new business forecasting.
- Jane recently finished developing business distribution assumptions for a new Universal Life (“UL”) product, introduced by the company last year. The product did not sell as well as expected and Jane had to reduce, previously optimistic, sales assumptions for future years.
- She produced new business projections for this UL product and summarized them in a report delivered to Anthony, the company’s CFO and Jane’s boss, who is not an actuary.

# Case Study #6 (continued)

- Anthony calls Jane into his office, and opens his discussion with:
  - “I think your UL new business projections are too conservative. If our sales projections are this low, we may lose some of our distribution agents to our competitors.
  - Why don’t you increase the new business sales by 10% for the next 5 years across the board to have a more optimistic forecast? Just work your actuarial magic.”
- Jane is perplexed with Anthony’s request. In her career, she has never been asked to change her assumptions without sound justification.

# Case Study #6 Questions

- What should Jane respond to Anthony?
- Where do Jane's responsibilities lie?
- What are the outcomes of Jane's potential actions?
- What components of Professionalism does this situation highlight?
- Which pitfalls of Professionalism best describe this situation?



# Case Study #10

- As a favor to an old college friend, you agree to sponsor his daughter as a summer intern in your department. In addition to learning a little bit about actuarial science, she has agreed to handle the social media for the summer under the supervision of one of your relatively new junior associates who is good with technology.
- At the end of her first week, the intern and the associate present to you their report of Facebook posts, tweets and Instagram images.

# Case Study #10 (continued)

- As you look through the posts and pictures of employees hard at work, you realize that the companies and projects that each person is working on is clearly visible or clearly described. In so doing, confidential information about an upcoming merger could possibly be recognized by a “seasoned eye”.
- How should you respond?

# Case Study #10 (continued)

- If the merger goes through, the value of your company's (ABC) stock will rise significantly. Your intern is unaware of the merger, but you notice one of her tweets is, "Never bought stock before, think I will start with ABC ASAP #lovemynewjob".
- How should you respond?



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