

IAA Risk Book
Chapter 3 - Professional Standards
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1. Executive Summary

Codes of professional conduct (codes) and professional standards of qualification and practice (standards) provide the context in which sound actuarial practice addresses the needs of those who rely on the profession. The codes of actuarial organizations provide the framework within which standards and ethical behaviour of their members may be addressed. Codes are binding on member actuaries of most actuarial associations wherever they practice, as the scope of such codes and their application is generally international in nature.

2. Key Messages

1. Actuarial standards serve to assure the public that actuaries are professionally accountable. This gives the users of actuarial work confidence that the work has been performed appropriately. At the same time, standards provide practicing actuaries with a basis for assuring their work will conform to appropriate practice.
2. Actuarial standards (including those applicable to the assessment of risk and solvency of insurance companies and pension plans) can be of significant value to regulators.
3. Full Member associations (FMAs) of the International Actuarial Association (IAA) must have codes that contain a common core of general principles. One such principle is that their members comply with applicable actuarial standards.
4. Actuarial standards and regulations complement each other. Actuarial standards guide actuarial work. They are usually principle-based, rather than prescriptive, and permit departures from the standard's guidance if they can be justified. Regulations, on the other hand, are usually prescriptive and mandatory.
5. Actuarial standards are adopted to apply to actuaries practicing in a particular jurisdiction by whatever authority(ies) in that jurisdiction is (are) entitled to enact standards.
6. The scope of actuarial standards includes the process of setting assumptions, selecting methodologies, and disclosing the purpose for which the calculations were made, who set the assumptions, the actuary's opinion on their suitability, and the uncertainty associated with the actuary's estimates.

3. Background

Qualification standards are the requirements that actuaries need to satisfy to be considered by the profession to be qualified to perform the work in question (and in some jurisdictions to describe themselves as an actuary). These usually include initial educational requirements required to obtain sufficient knowledge to practice (broadly or in a particular practice area), continuing professional development (CPD) requirements, and experience requirements. In some jurisdictions qualification

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standards may have additional requirements for specific actuarial services such as practicing certificates or heightened CPD requirements.

Actuarial standards of practice address how actuarial work should be performed, and usually apply to the individual actuaries doing the work (in contrast to accounting standards, for example, which apply to the entity that is reporting its financial results). These standards usually apply to specific types of actuarial work, although some apply to all actuarial work.

Both types of standards are generally promulgated by a local standard-setter (often, but not always, the local actuarial association). The applicable regulator in a jurisdiction can require such standards to be followed in that jurisdiction.

This requirement (to comply with codes and standards) is supported in each FMA by a discipline process that can admonish, reprimand, suspend, or even expel a member found (after appropriate due process) to have materially violated applicable codes or standards.

The IAA Professionalism Committee addresses these topics in its paper “The Principles of Professionalism”.¹ It includes a comprehensive overview of:

1. The accountability of individual actuaries to their actuarial association (or other professional oversight body);
2. The educational requirements to become a qualified actuary and the continuing education requirements to maintain that qualification (qualification standards); and
3. Codes of conduct (which also refer to standards of qualification, practice, and disciplinary processes).

Material addressing professionalism aspects of cross-border actuarial services can be found in the IAA paper “Principles in Relation to the Governance of International Actuarial Work”.²

4. Benefits of Actuarial Standards

A summary of the role and benefits of well-developed and well-managed standards of practice has been described by one standard-setter as follows³:

1. Standards of practice serve to assure the public that actuaries are professionally accountable. At the same time, standards provide practicing actuaries with a basis for assuring that their work will conform to appropriate practices. Standards protect the public by:
 - a. Indicating for various areas of actuarial practice the appropriate procedures, techniques, and approaches, thereby enhancing the public's trust in the credibility and completeness of the actuarial work product.
 - b. Providing a means by which the many separate elements that make up actuarial practice can be reviewed and updated on a regular basis, so that practice remains current.

¹ IAA: The Principles of Professionalism, approved 23 January 2012, IAA website:

www.actuaries.org/ABOUT/Documents/Principles_of_Professionalism_EN.pdf, referenced 26 November 2014.

² Final draft as of August 2014:

www.actuaries.org/CTTEES_PROFESSION/DOCUMENTS/PROFESSION_LONDON_ITEM5A_INTERNATIONALGOVERNANCEOFACTUARIALWORK/ECVERSIONAUGUST2014.PDF, referenced 17 February 2015.

³ US Actuarial Standards Board website: www.actuarialstandardsboard.org/aboutasb.asp, referenced 13 June 2014.

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- c. Furnishing criteria for evaluating actuarial work products.
 - d. Providing a basis for discipline in those instances in which standards are not adhered to.
2. For individual actuaries, standards confer major benefits as well, by:
 - a. Providing guidance, particularly in practice areas that may be somewhat unfamiliar.
 - b. Giving strong evidence to any interested observer that the profession serves the public in an effective and responsible way.
 - c. Offering evidence of appropriate professional performance, which constitutes a defense in any civil or professional disciplinary action.
3. Standards of practice also serve to further assure regulatory authorities that they can depend on the actuarial profession to act effectively in the public interest. Written standards of practice, coupled with written provisions for disciplining members, show that a profession governs itself and takes an active interest in protecting the public.

The existence of effective standards enables a profession to describe appropriate practice, thereby narrowing the range of acceptable practice and discouraging poor practice. This is achieved both by establishing expectations of professional practice and behaviour and through the threat of professional sanctions. This gives the users of actuarial work confidence that the work has been performed appropriately.

Standard-setters promulgate practice standards to codify appropriate practice. They do not attempt to codify generally accepted practice, as such practice may become outdated or no longer be appropriate. Occasionally a standard may be promulgated for a new area of practice or to comply with new regulation, where no accepted practice has been established.

Actuarial standards also provide support for actuaries doing appropriate work who are challenged by their principal with respect to their work.

5. Standard-Setters and Regulators

Many standard-setters maintain a feedback loop with relevant local regulators (among other feedback loops). Periodic meetings allow regulators to bring issues or concerns that they have observed in their review of practice to the standard-setters. Periodic review of existing standards by practitioners also provides a feedback loop for working actuaries to comment on how the standards may be improved if modified, supplemented, amended, or repealed.

Standards of practice and regulations complement each other. Standards of practice guide actuarial work. They are usually principle-based, rather than prescriptive. In some jurisdictions standards use the verb “must”, meaning their guidance has to be followed in all circumstances. Much more often standards do not use the verb “must”. Instead, they state what the actuary “should” consider, do, and disclose when performing a particular type of assignment. This accommodates unforeseen situations, not contemplated in the standards, in which application of the standard would produce an inappropriate result. In such situations, it would be unprofessional to apply the standard. However, any such departure from the guidance of a standard should be identified and explained.

Regulations, on the other hand, are usually prescriptive and mandatory. In the event of a conflict between standards and applicable law (including regulations), the law would govern.

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6. IAA Model Standards

There are currently two categories of standards—model standards, and local standards applicable to the jurisdiction where the actuarial services are rendered. The IAA promulgates model standards that are not binding but can be used in several ways⁴:

1. An individual actuary may state compliance with one or more International Standards of Actuarial Practice (ISAPs) in his/her report (either of the actuary's volition, or because the client requires it), in which case the actuary is bound by those ISAPs.
2. A local standard-setter may create a new local standard by adopting an ISAP making only the changes specified in the drafting instructions within the ISAP.
3. A local standard-setter may base a new local standard on an ISAP by making more extensive changes.
4. A local standard-setter may revise its existing standards to be substantially consistent with an ISAP.
5. A local standard-setter may conclude that one or more of its existing standards are substantially consistent with an ISAP.

The development of ISAPs as models is a contribution that the IAA is uniquely positioned to make to stakeholders in the financial services sector worldwide. The strategic objectives of the IAA include objectives to “[e]stablish, maintain and promote common standards of actuarial education and common principles of professional conduct. Promote the development and issuance of actuarial standards in the jurisdictions of all Full Member Associations, and the global convergence of actuarial standards.” The status of the development of ISAPs at this time can be found at www.actuaries.org/index.cfm?lang=EN&DSP=PUBLICATIONS&ACT=STANDARDS_ISAP.

Local actuarial standards are promulgated by a local standard-setter, which is often, but not always, an actuarial organization. Examples where this is not the case are the standard-setters in Canada and the United Kingdom (for technical standards), which are independent of the local actuarial organization(s). Local standards under most codes are binding on any credentialed actuary performing actuarial services in the standard-setter's jurisdiction. They may or may not be derived from ISAPs. (Many developed countries, such as the United States, have standards that predate the ISAPs.)

7. Content of Standards

Actuarial standards cover actuarial work such as the process of setting assumptions, selecting methodologies, and making disclosures. These disclosures include the purpose for which the calculations were made, who set the assumptions, the actuary's opinion on their suitability, and the uncertainty associated with the actuary's estimates.

Although historically most actuarial standards of practice focused on the calculations actuaries make or the principles to be followed in making those calculations, they are increasingly focused on processes used by actuaries. Some examples of this process orientation are standards relating to enterprise risk management (ERM) in the United States, and parts of the European Standard of Actuarial Practice 2 *Actuarial Function Report under Solvency II* (a working draft as of June 2015)

⁴ Even if a local standard-setter does not follow any of these actions, it may still benefit from the IAA model standard in the development and maintenance of its own standards.

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in Europe. The US ERM standards in particular address the appropriate processes and considerations needed to evaluate an ERM approach, rather than to produce a number. This is consistent with the recent focus of banking, insurance, and pension regulators on governance structures and processes.

Actuarial standards that are binding on actuaries within the applicable jurisdiction are different from educational or research material that may be published by an actuarial organization. Such material is educational in nature; an actuary may use it or not, as the actuary deems appropriate. This fact is often stated prominently. Examples of this type of material include International Actuarial Notes (IANs) published by the IAA, monographs, and research papers.

8. Enforcement of Standards

As stated in the beginning of this chapter, codes and standards are part of the professional context to ensure that sound actuarial practice addresses the needs of the public at large. This context also needs to include a formal discipline process to ensure that conduct follows the principles laid out in codes and complies with standards. The IAA has therefore established a set of criteria that a discipline process must satisfy as one of the accreditation requirements for FMAs. These criteria are:

1. A complaint process is accessible to anyone affected by an actuary's work and the actuary's professional peers.
2. Due process of defense is available to the actuary complained against, so that the actuary's rights are fully respected.
3. There is an objective formal appeal process independent of the body that has ruled at the prior level.
4. There are available sanctions appropriate to the seriousness of the violations committed, including termination of membership in the association.
5. Appropriate notice and information are given to the public of the results of the complaint process where any penalty is imposed.

The IAA paper "Professionalism Committee Paper on Considerations in the Design of a Discipline Process"⁵ provides information on the items to be addressed when instituting a formal discipline process.

One way the regulator can verify that standards have been followed is to require a review of an actuary's work by another qualified actuary. This should be an actuary who is qualified to provide the type of work that he or she is reviewing. This normally is an actuary who has not been involved in the work in question. It can be an independent actuary who does not work for the company or group.

⁵ IAA: "Professionalism Committee Paper on Considerations in the Design of a Discipline Process" approved July 2008, IAA website: www.actuaries.org/CTTEES_ACCRED/Documents/Considerations_Design_Discipline_Process_EN.pdf, referenced 26 November 2014.

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9. Conclusion

Actuarial standards of practice benefit regulators, users of actuarial work, and practicing actuaries as each group carries out their different roles. Actuarial standards support the production of a professional, appropriate work product on which regulators and users may rely with confidence.

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