



Statement of Intent (SOI) for an International Actuarial Note on Professional Judgement

Approved by the IAA Professionalism Committee¹

1. Background

Actuaries in their daily work have always been involved in processes that require their Professional Judgement. In pricing or reserving in insurance undertakings or making a quantitative assessment of a pension or employee benefit plan, they are expected to assess both the quality of data and the appropriateness of methods, assumptions, parameters, and models as well as the reasonableness of model outcomes.

The field of work for actuaries has been broadening over the past years. In addition to their traditional roles in insurance and pensions, both in private and public fields, actuaries are now moving into non-traditional and emerging areas of practice (such as banking, climate-related risk, data science and artificial intelligence) as experts in risk assessment and management. It is believed that there is a fundamental difference between judgements provided by an expert not belonging to a profession and by an expert who belongs to a profession and therefore is bound by the standards set by that profession. Professional Judgement differentiates actuaries from other experts active in the same domains.

Furthermore, the nature of many services provided by actuaries (for example reporting under various accounting frameworks or capital standards such as IAS 19, IFRS 17, International Capital Standards) has become more global, more principles based and has increased the need for sound Professional Judgement by the actuary. The less rules-based and the more principles-based a framework is, the more important is the role of making appropriate professional judgments.

The IAA can play an important role in creating awareness and educating actuaries on key aspects of Professional Judgement in their work.

An International Actuarial Note (IAN) on Professional Judgement will support the development of the actuarial profession and promote professionalism worldwide, contributing to the IAA's Strategic Objective "Assure".

2. Objectives

The objectives of the IAN are to:

- a) Create awareness and educate all actuaries on exercising their Professional Judgement in their work.
- b) Promote the development of the actuarial profession, particularly providing support for younger actuaries, actuaries working in broader fields, and developing actuarial associations.
- c) Illustrate to the public that actuaries can be expected to exercise their Professional Judgement

¹ *Approved by e-mail vote concluded on 15 April 2023, and updated with non-substantial editorial changes following the meeting in May 2023 in Sydney.*

appropriately.

3. **Scope and content**

This SOI proposes that the IAA:

- Draw on any work already done or currently in progress by member associations and by the IAA (e.g., coordinate with the Future Actuary Task Force) on this topic.
- Build on the European Actuarial Note 3 on Professional Judgement² by adding international content and elaborating further as needed on areas of global importance.

The content in the IAN will cover:

- The duties of the actuary when making Professional Judgement.
- The choice of data for an assignment.
- How to deal with missing or inappropriate data.
- The selection and usage of the methodology and the model.
- The setting of key assumptions embedded in the model.
- Testing model outcomes for reasonableness
- The interpretation of the model outcome
- The use of Professional Judgment in selecting among results from multiple reasonable models
- Examples and illustrations on how Professional Judgement could be applied to various practice areas.

We will discuss Professional Judgement in different fields of actuarial practice and in different roles. The specificities of a particular role may require an appropriate use of these issues and an adaptation to a specific task. To provide support in this regard, this IAN might be extended in different ways, for instance by means of appendices dealing with the specificities in different fields of actuarial practice, including examples and illustrations.

The proposed IAN is intended to be educational and intended to advance the understanding of the key aspects of Professional Judgement. It is not intended to be prescriptive or to convey information in a definitive/authoritative manner. Therefore, the language will be chosen carefully, and the style will be descriptive.

The IAN will be developed following the [IAA Due Process for IANs](#).

² https://actuary.eu/wp-content/uploads/2022/10/2022.10.07_AAE-EAN-PJ-FINAL.pdf