



# Professionalism: Key to Sustaining Value

Gary Josephson, CAS President Elect

Joint Colloquia, Mexico City, MX  
October 4, 2012



# Session Themes

- Professionalism Defined
- Ensuring Professionalism within the CAS
- Code of Professional Conduct
- CAS Statements of Principles
- CAS Continuing Education Policy



# Professionalism Defined

- What is a Profession?
  - An occupation requiring **specialized training**
  - The purpose of which is to provide **objective counsel and service** to others
  - Whose members agree to abide by a specified **code of conduct**
  - And follow common **Standards of Practice.**



# Actuaries Bring Value

CAS CEO surveys consistently cite three characteristics that employers value in their actuaries:

- Relevant Technical Skills
- Business Perspective
- **Professionalism**



# CAS Mission

The purposes of the Casualty Actuarial Society are:

- to advance the body of knowledge of actuarial science applied to general insurance, including property, casualty and similar risk exposures;
- to expand the application of actuarial science to enterprise risks and systemic risks;
- to establish and maintain standards of qualification for membership;
- to promote and maintain high standards of conduct and competence;
- to increase the awareness of actuarial science; and
- to contribute to the well being of society as a whole.



# Professionalism Expectations

- Candidates:
  - Candidate Code of Professional Conduct
  - CAS Course on Professionalism
- Members:
  - Code of Professional Conduct
  - CAS Continuing Education Policy
  - Disciplinary Actions



# Code of Professional Conduct (Revised)

- Adopted effective January 1, 2001
- Sets forth what it means for an actuary to act as a professional
- Identifies responsibilities that we have to:
  - The public
  - Their clients and employers
  - The actuarial profession
- Comprised of 14 Precepts



# Code of Professional Conduct (Continued)

- Professional Integrity
- Qualification Standards
- Standards of Practice
- Communications and Disclosure
- Conflict of Interest
- Control of Work Product
- Confidentiality
- Courtesy and Cooperation
- Advertising
- Titles & Designations
- Violations of the Code of Professional Conduct



# Precept 1: Professional Integrity

- 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.
  - Annotation 1-1. An Actuary shall perform Actuarial Services with skill and care.
  - Annotation 1-2. An Actuary shall not provide Actuarial Services for any Principal if the Actuary has reason to believe that such services may be used to violate or evade the Law or in a manner that would be detrimental to the reputation of the actuarial profession.



## Precept 2: Qualification Standards

- 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.
  - Annotation 2-1. It is the professional responsibility of an Actuary to observe applicable qualification standards that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services and to keep current regarding changes in those standards.
  - Annotation 2-2. The absence of applicable qualification standards ...does not relieve the Actuary of the responsibility to perform such Actuarial Services only when qualified to do so....



## Precepts 4 - 5: Communications & Disclosure

- Precept 4: 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: 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 7: Conflict of Interest

- An Actuary shall not knowingly perform Actuarial Services involving an actual or potential conflict of interest unless:
  - The 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 10: Courtesy & Cooperation

- An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.
  - Annotation 10-1. Differences of opinion among actuaries may arise, particularly in choices of assumptions and methods. Discussions of such differences...shall be conducted objectively and with courtesy and respect.
  - Annotation 10-5. When a principal has given consent for a new or additional actuary to consult with an Actuary... the Actuary shall cooperate in furnishing relevant information.... The Actuary shall not refuse to consult or cooperate...based on unresolved compensation issues with the Principal.



## Precepts 13 - 14: Violations of the Code of Professional Conduct

- An Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary shall consider discussing the situation with the other Actuary and attempt to resolve the apparent violation. If such discussion is not attempted or is not successful, the Actuary shall disclose such violation to the appropriate counseling and discipline body of the profession, except where the disclosure would be contrary to Law or would divulge Confidential Information.
- An Actuary shall respond promptly, truthfully, and fully to any request for information by, and cooperate fully with, an appropriate counseling and discipline body of the profession.....



# Considerations

- Am I making decisions today that I will regret three years from now (or when my decisions make the headlines of a major publication)?
- Am I tempted to “help” clients or my employer by making their problems mine?
- Is the quality of my work suffering because of time and/or staffing pressures?
- If I am switching job assignments, am I “qualified” for the new work?



# CAS Statements of Principles

- Adopted in the late 1980's
- Non-binding for the actuary; intended to codify “universal truths”
- Address significant areas of practice:
  - P/C Loss and Loss Adjustment Expense Reserves
  - P/C Insurance Ratemaking
  - P/C Valuations
- Project currently underway to update /streamline the Statements of Principles



# Statement of Principles on Reserves

- An actuarially sound loss (loss adjustment expense) reserve... is a **provision, based on estimates derived from reasonable assumptions and appropriate actuarial methods** for the unpaid amount required to settle (to investigate, defend, and effect the settlement of) all claims, whether reported or not, for which liability exists on a particular accounting date.



# Statement of Principles on Reserves

- The uncertainty inherent in the estimation of required provisions for unpaid losses or loss adjustment expenses implies that **a range of reserves can be actuarially sound**. The true value of the liabilities... at any accounting date can be known only when all attendant claims have been settled.
- The most appropriate reserve within a range of actuarially sound estimates depends on both the **relative likelihood of estimates within the range and the financial reporting context in which the reserve is presented**.



# Reserve Considerations

- Data Availability
- Homogeneity
- Credibility
- Emergency and Settlement Patterns
- Contractual Terms
- Operational Changes
- External Influences
- Financial Reporting Context
  - Time Value of Money (Discounting)
  - Provision for Uncertainty



# Statement of Principles on Ratemaking

- A rate is an **estimate of the expected value of future costs.**
- A rate **provides for all costs** associated with the transfer of risk.
- A rate provides for the **costs associated with an individual risk transfer.**
- A rate is **reasonable and not excessive, inadequate or unfairly discriminatory** if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.



# Ratemaking Considerations

- Exposure Unit / Data / Organization of Data
- Homogeneity / Credibility
- Loss Development / Trend
- Catastrophes
- Policy Provisions / Mix of Business / Reinsurance
- Operational Changes / Other Influences
- Classification Plans / Individual Risk Rating
- Investment and Other Income
- Risk / Actuarial Judgment



# CAS Continuing Education Policy

- Approved May 2010
- Effective for Actuarial Services rendered on or after January 1, 2012
- Applies to all members providing Actuarial Services



# CAS Continuing Education Policy

- Members must
  - Meet specified Standards
  - Maintain a log of activity (retain for 6 years)
  - Certify compliance each year
- CAS will
  - Publish compliance status each year
  - Audit a sample of members



# Professionalism: Key to Sustaining Value

Gary Josephson, CAS President Elect

Joint Colloquia, Mexico City, MX  
October 4, 2012