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ASOP No. 41 Revision
Actuarial Standards Board
1100 Seventeenth Street, NW, 7th Floor
Washington, DC 20036-4601

This responds to the request for comments on the Exposure Draft dated September 2008 with a comment period ending December 31, 2008.

As a principled professional I do not think that formal Actuarial Standards of Practice, developed in committee, and vetted through a due process procedure analogous to the legal standards followed for devising regulations, is the best instrument for raising the standards of the profession or the regard in which the profession is held. I would prefer a commitment to practical research resulting in publications that can advance the frontier of knowledge and good practice for actuaries.

Actuaries serve as knowledgeable, experienced stewards of the entrusted funds of others, who enter into contracts predicated on a belief that their funds will be faithfully husbanded to meet future financial commitments, often long-deferred financial commitments. This is a level of responsibility that calls for a profession of the highest integrity. The governing documents that guide our profession have followed the trend of the accountants in evolving over the years from a principled call for integrity, objectivity, and detachment to a quasi-legal set of prescriptions which are more at home in the hands of attorneys than in the guidance of the actuarial profession.

But the Actuarial Standards Board has now asked for comments on its latest prescription, namely, a revision of Actuarial Standard of Practice Number 41, entitled *Actuarial Communications*. This letter seeks to respond to that request despite the misgivings of the commentator concerning the process as a whole.

Actuaries need to be cognizant of their professional obligations in all discussions of matters for which they might be construed to be experts. This means that they are not free to voice even causal opinions lightly in contexts in which lay listeners might conceivably attach weight to the opinion merely because of the actuaries' special qualification and professional affiliations.

This special responsibility to take care in utterance also means that when actuaries do properly advance their views on matters within the purview of the profession they should take pains to ensure that their views are thoughtfully conceived, applicable to the specifics of the situation under consideration, and that their statements fully disclose the bases for the actuary's view that the answer (or alternative answers) given is/are the most suitable under the circumstances. I think that these principles are what the authors of ASOP 41 are seeking to advance even while their views are encased in the formalistic trappings of the generalized ASOP format. The drawback to this approach is that it appears to favor form over substance and minimum requirements over best practices.

The Committee specifically asked actuaries to comment on four questions concerning the exposure draft, to wit:

1. Do you believe it appropriate to require the actuary to be responsible for assumptions and methods used within an actuarial communication unless otherwise disclosed? Do you believe that this standard is the appropriate place to do that? Does this draft make this intent sufficiently clear?

Response. From the statement of principle enunciated above, it will be clear that I believe the actuary to be responsible for the integrity of all communications which an uncritical listener might reasonably expect to fall within the actuary's area of expertise. By this standard the actuary is responsible at all times and in all places for the cogency of such communications including not only assumptions and methods but also for the suitability of the reasoning behind the judgments compelling the use of particular assumptions and methods in preference to others that might have been used.

Since I believe that these are matters of general principle relating to the standards of character, ethics, and integrity to be expected of all professional actuaries, I do not believe that they are either advanced or retarded by their inclusion in a standard.

As for the last question above, I do not think that the formalism of ASOPs is ever the best medium for making clear intent on this or other matters. Communications should reflect the conscience and standards of performance of the individual actuary, whose work should thereafter be subject to fully independent peer review by seniors in the profession. Peer review by members of a single firm may be protective of the interests of the firm but is hardly an objective, independent review of an actuary's work product.

2. This ASOP is titled "Actuarial Communications" even though it also addresses documentation. Does this create any confusion? If so, what would a better title be?

Response. Documentation is inherent in communication. Professional actuaries should have sufficient education and background to be able to use language skillfully, including the nuances of terms such as those required for effective Actuarial Communications.

Communication is the message. Documentation relates to the basis for the message and its substantiation. Inherent in any message, however, is the implication that it has a basis, and inherent in any professional communication is the implication that it has substance. Therefore, documentation inheres in communication.

3. Does this draft make it sufficiently clear when the actuary should issue an actuarial report disclosing methods, procedures, assumptions, and data as opposed to issuing another form of actuarial communication that does not make these disclosures?

Response. The word "issue" does not seem quite right here. I am interpreting the intent of the writer of this question as asking, "Does this draft make it sufficiently clear when the actuary should prepare an actuarial report disclosing methods, procedures, assumptions, and data as opposed to limiting actuarial communication to something less that does not make these disclosures?"

An actuarial report can serve as substantiation of the basis of the actuary's views for her or his principal or for others who may question the finding. It can also, however, serve as an *aide-mémoire* for the actuary her- or himself, and therefore it is always good practice for an actuary to prepare a "report," whether that report is released to the principal or not, whenever the actuary's findings are of sufficient complexity that the finding is not simply self-evident on its face.

This is not a standard that can be predefined. It is the expectation that each actuary will have sufficient good judgment to make such determination as to whether concurrent documentation in the form of a report is desirable or not that elevates actuaries from the status of mere technicians to that of professionals.

There are times when full documentation is not possible at the time of the communication, but the actuary should be prepared to stand behind the communication nonetheless. In the heat of a labor negotiation, for instance, an actuary may be asked to provide a broad brush estimate of the cost of a particular change, say, a change in a retirement benefit. The actuary may be able to quickly narrow the range within which such a cost may reasonably lie, and this may suffice to meet the immediate needs of the negotiators. Still, the actuary should prepare documentation, perhaps in the form of a file memorandum, to fully support the basis even for such a crude estimate and why it was sufficient for the intended purpose given the exigencies of the situation.

4. Are the added disclosure requirements in cases involving deviation clear and appropriate?

Response. I think that the disclosure requirements are fine as far as they go. There are two major elements of actuarial findings that are omitted here and one element of actuarial responsibility that I would like to see articulated and emphasized:

1. There is no requirement that the actuary state the basis for her or his judgment that the assumptions, method, or data entering into a finding are the most suitable for the particular situation. I believe that actuaries should be able to document the basis for their judgments. I do not believe that the following excerpt from a recent statement by an actuarial expert reaches the standard of justifying the suitability of the actuary's judgment, especially since the case in point involved the mortality prognosis for a single individual.

"In my opinion, a more appropriate table is the 1975-80 Select and Ultimate Sex-Distinct Mortality Table (Age Last Birthday) with adjustment multiples of 40% (policy year 1), grading to 65% (policy year 20). Such a table would typify levels of mortality expected for a fully-underwritten female insured life at that time."¹

I believe that our profession should aspire to a higher standard of documentation. The public will not judge us by our internal promulgations but by our work product in practice. I believe that actuaries should be able to document the judgments behind their belief that particular choices are appropriate in the circumstances. The ASOP does not require the actuary to document such judgments.

¹ Citation withheld to protect the identity of the source.

2. In practice many actuarial findings are based on mathematical models that the actuary who is using may not have personally developed. It is my belief that no actuary should ever use a model to produce a result unless she or he is fully convinced that the results are consistent with what would have been produced if the actuary had personally developed, tested, and perfected the model.

In my practice I have encountered situations in which the models of major consulting firms are no longer internally verifiable, either because the source code and documentation have been lost or because they never existed in detailed form. In such cases the response to requests for internal documentation is that the reviewing actuary should run the data through a second model to see if there is substantial conformity with the results produced by the undocumented model. I find this insufficient to meet the aspirations of our profession.

Consequently, I would hope that Actuarial Communications might require that the actuary be able to document the internal workings of any model involved in a calculation and that, in case of reliance on others, the actuary disclose fully the steps taken by the actuary to ensure that the internal workings of any model relied on are accurate and in accordance with appropriate actuarial practice.

3. It should also be made clear that actuaries practice as individuals and that their communications are those of the actuaries as professional individuals and not as members of actuarial firms. Standards of integrity and character are standards that apply to actuaries as individual professionals. It seems inappropriate for an actuary to hide behind the shield of affiliation with a particular firm or institution. There are times when matters of professional conscience may require an actuary, as a professional, to disagree with the stated positions of her or his employer, even at the risk of having to sever the employment relationship. The individual character of Actuarial Communications as reflecting the professional conscience of the originating actuary also needs to be made clear.

Accordingly, while the ASOP as drafted is reasonably clear, I would hope that the profession would recognize the need for complete disclosure in actuarial communications.

I agree with Michael Gross that section 2.3 b. is weak. Internal actuarial documentation, say between actuaries in an insurance company, has often been weaker than the standard of documentation that consulting actuaries have evolved in reporting their work to their clients. Often a work product is improved by the actuary's knowledge in the course of that work of the level of documentation that will be required. Merely because many insurance company actuaries have been content to receive partially documented work from their subordinates does not mean that is a desirable or even acceptable standard for a profession that aspires to be recognized by the public for excellence. Perhaps this ASOP could have a constructive outcome if it resulted in the elevation of internal documentation within insurance companies and other institutions. As Mr. Gross implies, if the work is significant, it is worth documenting.

In section 3.1.4 I believe that the standard should be extended as follows (new text in boldface type):

3.1.4 Actuarial Report—In addition to the actuarial findings, an actuarial report should identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work as presented in the actuarial report **and, if desired, replicate the originating actuary’s work by following the documentation to reproduce the originator’s result.** To the extent the methods, procedures, assumptions, and data used have been described in a previous actuarial report that is available to the intended audience, the actuary may incorporate this information by reference into the actuarial report.

This comment also applies to the analogous part of section 3.6 as well.

In section 3.2.3 I am troubled by the notion, supported here, that an actuary might rely on other sources without making reasonableness checks to establish the credibility or accuracy of the source relied upon. I don’t think that the Actuarial Communication can be any better than its reliances and so actuaries should take responsibility for critically examining any sources underlying their work to establish their appropriateness for the application at hand.

In section 3.2.4 actuaries should opine on why they believe it professionally suitable for them to follow assumptions and methods selected by others. Just as is required in section 4.4 for Deviation From the Guidance of an ASOP, the actuary should provide “an appropriate statement in the actuarial communication with respect to the nature, rationale, and effect of such” deviations of assumptions or methods from the assumptions or methods that the actuary would have selected in the absence of external direction. Section 4.3.2 also comes into play in this circumstance and I would delete the qualifying phrase “where practicable” from that section. A professional ought to be bound by conscience to disclose instances in which a potential distortion of result may result from what the professional has been required to do.

Finally, I find the closing statement to be weak and unworthy of our profession. The statement there reads as follows: “In preparing and conveying actuarial communications, actuaries seek to satisfy their responsibility to their principals, for example, clients or employers, while being mindful of the potential impact of their communication upon other parties.” I believe that we should aspire to a higher standard. It’s true that we should be faithful to our stewardship to those who employ or retain us, but as professionals we owe a duty to a higher calling than merely satisfying clients or employers while limiting our duty to the larger public interest to mere mindfulness. I think that we can do better. I believe that most actuaries do.

Respectfully submitted,

A handwritten signature in black ink that reads "John B. Cumming". The signature is written in a cursive, flowing style with a large initial 'J' and 'C'.

John B. Cumming