

## COMMENT 20: DECEMBER 31, 2008

Thank you for the opportunity to respond to this draft. The revisions to ASOP 41 reflect a highly significant change in the use of the term “actuarial communication.” The authors are to be congratulated for the work done thus far. After responding to the specific question, I will discuss this point further and then add some specific comments on selected sections.

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?

Yes on all points.

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?

No, I don’t think there is a problem with addressing documentation in the ASOP.

However, it seems to me that this is the wrong question. To me the more crucial issue is not whether documentation is covered by the ASOP, but rather what totally different meanings can be attached to the word “communications.” More on this follows below.

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?

This is a key question, and unfortunately, at this time I think the answer is no.

Another commentator has suggested applying a test case, with the purpose of identifying the need for additional guidance in situations that the current draft fails to fully address. I list here two versions of the proposed case study, and then add another one for consideration by the committee.

- A. a presentation of strategic considerations to a product management officer by a team that includes an actuary, or
- B. a presentation of reinsurance alternatives to the CFO by an actuary, or
- C. An actuary (FSA or ASA) who has attained the CERA designation by the experienced practitioners pathway, serving as Chief Risk Officer (CRO). His\* responsibilities include effecting a culture change throughout the company to make appropriate management of risk an ongoing activity by every employee.

\* as implied by English grammar, the term he/him/his is meant throughout this document to incorporate the meaning “she/her/hers”

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

Yes

To preface my remarks, I would like to make the point that I am not criticizing the committee, but rather emphasizing just how large a change has been made by the revisions to the *Qualification Standards*. The subject matter used to be a very limited set of Prescribed Statements of Actuarial Opinion (PSAOs), all very formal and circumscribed. Now it has been expanded to include a much broader scope, comprising formal and informal communications whether oral and written.

It does appear that the draft has made the step from PSAO to situations in which a specific project is assigned to an actuary and upon completion of the project the actuary presents the findings in a comprehensive package. As the case studies noted in answer to question 2 suggest, however, the draft does not do so well in handling ongoing internal conversations (oral or written) carried out by an actuary in the course of employment.

There is also a confusion between the various meanings of the word “communication.” According to my trusty *Webster’s New College Dictionary* (1961 Edition), some meanings of the word are:

1. Act or fact of communicating
2. Exchange of thoughts or opinions
3. An oral or written message
4. That which is communicated [i.e., the content of such a message]
5. A system for communicating

Neither the *Qualification Standards* nor this draft ASOP makes clear just which meaning is intended. To me, confusion seems to result from the fact that the word sometimes implies any conversation at all (meanings 1 and 2) and sometimes means a specific, formal presentation (special case of meaning 3) intended to summarize and complete the overall process of providing an actuarial service. And yet the point, I would hope, is to assure that meaning number 4 is somehow achieved in the course of whatever method the actuary uses in making his opinion and advice available to his principal.

Some of the other commentators seem to be in the habit of assuming that the communications subject to ASOP no. 41 are always to be presented in writing, if not initially, at least in final form. I think that the test cases mentioned above challenge this assumption.

And in today’s environment of multi-media, there may well be a primarily oral presentation, accompanied by a Power-point style presentation. There may or may be a consolidated document backing all of this. Instead, a collection of e-mails, computer runs and other written documents may – considered in total – serve to back up the entire presentation.

Another possibility is that, say, the Chief Actuary prepares the presentation and assigns a new ASA (as a learning experience) to deliver the presentation to senior company management.

Before going on to more specific comments about the draft, I would like to refer to a comment made in response to the Request for Comments on ASOP Content/ASB Procedure, as a possible way to improve the clarity of ASOPs:

have someone (a lawyer? a technical writing consultant?) professionally review the “otherwise final” draft of each ASOP, and recommend changes to the responsible committee.

While I would not, in general, recommend such a process, it might be appropriate to consider such review for an ASOP on the subject of communication. In my view, however, we are not very near having an “otherwise final” draft.

### **Here are my comments on specific sections.**

#### 1.2 Scope

2<sup>nd</sup> and 3<sup>rd</sup> paragraphs.

I support the suggestion made by another commentator that there should be a definition of “deviations.” Indeed, a well-crafted definition may also reduce the amount of repetition regarding this subject, and thus result in a cleaner, more readable document.

4<sup>th</sup> paragraph, first sentence.

Perhaps I am missing the point, but I find this extremely confusing. Exactly what actuarial communications are “required by the *Qualification Standards* or by other ASOPs”? Was this intended to refer to **items that must be included in actuarial communications** in order to comply with the *Qualification Standards* or by other ASOPs? My suggestion is that the sentence be rewritten for greater clarity.

#### 2.3. Actuarial Report

According to this definition, internal communications within a company are not considered actuarial reports. Why not? Indeed, many actuarial assignments within a company result in a formal report giving the actuary’s findings, appropriately referencing the methods, procedures, assumptions and data that went into the result.

#### 3.1 General Requirements.

The last sentence of this paragraph makes an excellent point. As noted in my next two comments, however, it may need further development.

##### 3.1.2. Timing of communication

Although this paragraph talks about “an actuarial communication” it seems to me that the actual subject is some formal presentation wrapping up a particular assignment. As noted above, however, **communication** should be an ongoing process.

Perhaps it would help to move section 3.1.2 after 3.1.3, and make the timing issue relate particularly to the Communication of Significant Actuarial Findings.

3.1.3 I support the proposed language suggested by another commentator:  
Actuarial findings that the actuary considers to be significant should be formally presented in an actuarial report that discloses the methods, procedures, assumptions, and data used by the actuary unless the actuary judges that approach to be inappropriate. Findings that the actuary does not consider to be significant, or where the actuary judges an actuarial report to be inappropriate, should be presented in one of the other forms of actuarial communication that does not require these disclosures.

This proposed change goes right to the heart of my concern about internal communications.

### 3.3 Oral Communications

I think that the issue identified in this example is **not** whether the testimony is provided orally or in writing, but rather the fact of constraints in the forum that may restrict the actuary's ability to include material that the forum considers extraneous. Maybe other examples of oral communications are needed in order to clarify the point being made in this section.

Or else the section should be renamed. Constraints of the forum are also present in written communications provided by the actuary, particularly when completing prescribed forms, such as those required by various regulatory authorities.

### 3.4 Reconciliation of Material Differences

I agree with the commentator who suggested that an earlier oral communication is a completely different situation than one where the earlier communication was in the form of a written report. Only the latter case seems to require the formal documentation required in this section.

Section 3.5 takes on a whole new aspect when applied to ongoing internal communications, such as when it refers to "language in the actuarial communication that may limit distribution to other users." This would be particularly awkward in the case of an oral communication.

### 4.1 Disclosure, item b. "the scope or intended purpose of the engagement or assignment"

I find it very hard to make sense of this requirement in the context of an actuary performing ongoing services for an employer. Much actuarial work is indeed project oriented. Not all of it is in this form, however, and the greatest weakness of the current exposure draft is its failure to fully address these other, ongoing kinds of actuarial communications.

### 4.1 e. "any actual or apparent conflict of interest . . . that is not readily apparent."

Another commentator's challenge to this wording reminded me of the joke about the manager who asked his staff to provide him with a list of all unanticipated problems that might come up.

In conclusion, I would like to again congratulate the committee on this draft. They have done much good work, and more will be needed to fully address the issues caused by the new definition of Actuarial Communications.