



## A Hitchhiker's Guide to ASOPs

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Presented at the Spring Meeting of the Casualty Actuarial Society

Hotel del Coronado, California

May 25, 2010



# A Tale of Two Projections

Numby



New ACAS

George



Reserving  
Actuary

Chief



CFO

Smiley



Sales &  
Marketing



# A Tale of Two Projections

Two

Months

Later . . .



# A Tale of Two Projections

The End ? ? ?



# A Tale of Two Projections

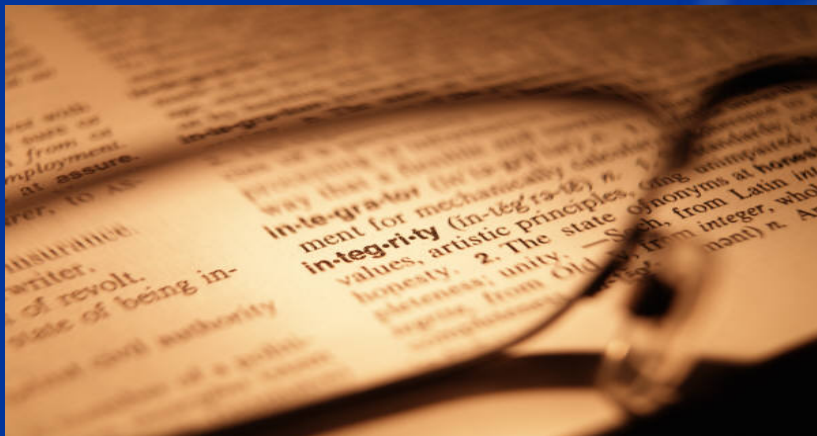
## Town Hall Meeting



# Code of Professional Conduct: Integrity

## ■ PRECEPT 1:

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 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.



# Standards of Practice

## ■ PRECEPT 3:

An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.





# ASOP #43 - P&C Unpaid Claim Estimates

## ■ 3.6.6 External Conditions

- Claim obligations are influenced by external conditions, such as potential economic changes, regulatory actions, judicial decisions, or political or social forces. The actuary should consider relevant external conditions...that, in the actuary's professional judgment, are likely to have a material effect on the actuary's unpaid claim estimate analysis.



# Principles of Reserving

## Principle 4:

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 will be presented.



# Control of Work Product

## ■ PRECEPT 8:



An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties.



# Skit 1: “Code-Friendly” Actions

- Produce ranges of estimates (Precept 3 – Principles and ASOPs)
- Document and communicate results (ASOP 9 and 41).
  - May include sit-down with management to explain problems with alternative assumptions
- Seek peer review or 2<sup>nd</sup> opinion
- Contact ABCD for guidance



# Supply & Demand Pricing Model



**Miles** Chief Pricing Actuary



**Earnest** New ACAS



**Maalox** V P Product Mgmt



**Josh** Marketing Analyst

# Lifetime Value

## *\$\$ Profitability Picture \$\$*

	Senior	Youth	Total
<b>Current Results</b>			
Premium (\$M)	50	1	51
Combined Ratio	97%	122%	99%
<b>Projected Results</b>			
Premium (\$M)	55	10	65
Combined Ratio	88%	136%	97%

Lifetime Value

*\$\$ Renewal Solicitation Notice \$\$*

***Congratulations!!***

*You Are a Randomly® Selected*

***Winner!!***

*✓ Automatic low-cost renewal!!\**

*\*This is not a bill*

Lifetime Value

*\$\$ Renewal Solicitation Notice \$\$*

***Congratulations!!***

*You Are a Randomly® Selected*

***Winner!!***

*✓ Automatic low-cost renewal!!\**

*\*This is not a bill*

Lifetime Value

*\$\$ Renewal Solicitation Notice \$\$*

***Congratulations!!***

*You Are a Randomly® Selected*

***Winner!!***

- ✓ Automatic low-cost renewal!!\**
- ✓ Automatic Bingo/Raffle Entry!!*
- ✓ Special CustomCare® Routing!!*

*\*This is not a bill*



# Supply & Demand Pricing Model

## Town Hall Meeting



# Skit 2

## Ernest Milquetoast & Miles Fairview

- Precept 1 issues present again
- Precept 3 – Ratemaking Principles
  - Principle#4: 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.



# Communications and 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





# Violations of the Code of Professional Conduct

## ■ PRECEPT 13:

An Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary should 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.



# Who's Providing Actuarial Services?

- Actuarial Services (defined in Code):
  - Professional Services provided to a Principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.
- Actuary:
  - Member of organization who has adopted the Code (e.g. CAS)



# Skit 2: “Code-Friendly” Actions

- Ernest Milquetoast
  - Test plan against ratemaking ASOPs and principles (Precept 3)
  - Communicate clearly and appropriately (Precept 4)
- Miles Fairview
  - Counsel and advise Ernest of potential violations (Precept 13)
  - Emphasize problems with plan and communicate concerns with President (Precept 4)



## Code of Professional Conduct:

<http://www.casact.org/about/policiesProc/index.cfm?fa=code>

## Statements of Principles:

<http://www.casact.org/standards/princip/>

## Actuarial Standards of Practice:

<http://www.actuarialstandardsboard.org/asops.asp>