

## The Rules Are Your Friend

**W**HEN I WAS LEARNING TO PLAY GOLF, I first heard “the rules are your friend” when I complained about having to count two extra strokes after my ball bounced off the wall of a bunker and hit my foot. “No way,” I thought, until quite a bit later when I realized that while the rules sometimes irk me, they can provide relief in difficult situations.

It’s the same with the rules of our actuarial profession. Our rules, the Code of Professional Conduct, the Actuarial Standards of Practice (ASOPs), and the Qualification Standards, are, like the rules of golf, sometimes difficult to interpret or to understand. But they provide a great deal of guidance and help when we find ourselves in situations where appropriate actions are not immediately obvious or where we need to explain our actions to others.

Just as it would be difficult, if not impossible, to know all the rules for golf and how they apply to a given situation, it’s not expected that you commit to memory all of the ASOPs that are applicable to your practice. But if you consult the Applicability Guidelines for Actuarial Standards of Practice (available on the Academy’s website, [www.actuary.org](http://www.actuary.org)), it’s not so hard to discover which ASOPs typically apply in a given situation. It’s every property/casualty actuary’s responsibility to know, for example, that there are ASOPs that apply to trending procedures and to expense provisions in P/C ratemaking. The actuary should be familiar with the ASOPs and know where to find them when determining how to proceed in an unfamiliar situation. The standards provide guidance on commonly used procedures and on what to do if you choose to deviate from the standard.

A major difference between our actuarial rules and the rules of golf is the degree of freedom we are given to use our professional judgment and, where appropriate, to deviate from one

or more provisions of an ASOP as long as we are able to justify and explain why we are departing from the rule.

Suppose, for instance, that Joe, the first in-house actuary for a company, is preparing a rate filing and has selected a trend factor indicating that loss costs will increase by 6 percent a year over the next two years. Joe’s internal client has a negative reaction to the indicated rate levels and suggests that Joe use his actuarial judgment to select a trend of only 4 percent a year. Joe can use ASOP No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*, to explain that although he is able to use his own judgment, he must be able to support his trend selection. If he selects a trend that isn’t supported by available relevant information, he needs to document and disclose the reasons for his selection. (Pension actuaries may encounter a similar situation with respect to interest rates and ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*.)

After a few such encounters, Joe’s internal client will realize that he is a professional who must meet standards and an ethical code.

The code identifies actuaries’ ethical responsibilities to the public, to clients and employers, and to the actuarial profession. It requires actuaries to adhere to high standards of conduct, practice, and qualifications. The code’s 14 precepts identify the ethical and professional standards to which an actuary is held. Annotations for each precept aid an actuary in understanding how to interpret and apply the precepts. These rules, and our ability to monitor adherence to them, assure us and our various constituencies that actuaries are a community of professionals.

Just as a golfer is often the only one who knows that he has incurred a penalty (and is obligated by the rules to acknowl-



LINDA BELL is a retired actuary living in Pinehurst, N.C., a fellow of the Casualty Actuarial Society, and a member of the ABCD. Her golf handicap is trending down.

edge that fact), an actuary is often alone in knowing that a particular action or selection doesn't comply with an ASOP or with the code. But the code obligates an actuary to do the right thing. Both sets of rules rely ultimately on the integrity of the individual playing the game or performing the work.

I'm going to stretch the analogy a bit farther. There are often times when I will go into the pro shop of a golf course seeking the proper interpretation of a rule. For example, if my ball comes to rest in the rough in ground under repair (which allows a free drop with no penalty), do I have to take my drop in the rough?

Similarly, there are often times when an actuary could use some help interpreting the code or an ASOP. For example, say that I'm a fellow of the Society of Actuaries, but I'm working as an underwriter, not as an actuary. Does Precept 1 apply to what I do?

What about Precept 3?

Well, the Actuarial Board for Counseling and Discipline (ABCD) wants to be your pro shop. The process of asking for help in interpreting the right thing to do, or in determining whether the code or an ASOP applies, is fairly straightforward and is fully described on the ABCD's website ([www.abcdboard.org](http://www.abcdboard.org)) under "Requests for Guidance." Responding to requests for guidance is some of the most rewarding work that we do as members of the ABCD.

Yes, the rules are your friend. They exist to help us all maintain a profession worthy of respect and esteem. They are not there, however, to cover work or behavior that is questionable. Those of you who follow golf know the name of Jim Furyk. He is a pro golfer who is, I think, a true profes-

sional. During a 2006 tournament, Jim hit a ball that buried itself in deep rough. During the search for the ball, an opponent accidentally stepped on the ball, causing it to move. This fact would have allowed Furyk a free drop (no penalty) under golf rules. But Furyk instead chose to take an unplayable lie, which allowed him a drop with a one-stroke penalty. His reasoning was that the ball was originally unplayable and to take a drop with no penalty, even though permitted under the rules, would be taking unfair advantage. No one could have faulted Furyk had he taken the free drop, but he needed to feel that he was doing the right thing.

Use the code and the standards to determine your options. They are a vital asset in ensuring that you are doing the right thing. ●



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