

We Need to Do Better

MOST OF THE CASES THAT COME BEFORE THE ABCD don't involve dishonesty, fraud, intent to deceive, or other lack of integrity on the part of practicing actuaries. As a profession, we can be proud that such situations are rare.

Neither do many cases involve an actuary failing to resist inappropriate pressure from an employer or client to modify actuarial conclusions. In fact, it's far more common for us at the ABCD to see such situations in our counseling activity, where actuaries are resisting inappropriate pressure and are seeking support in their decision to do so.

Most of the cases the ABCD sees involve an inadequate work product. The causes of such failings vary. There are, however, a number of aspects that occur with sufficient frequency as to merit discussion. Generally, more than one of these problems is present.

Changing circumstances. We've seen a number of situations in which an actuary is accustomed to performing a routine task, such as valuing a pension plan or determining an insurance reserve. When unusual or changing circumstances develop, the actuary fails to appreciate the significance of the new developments.

Inadequate actuarial knowledge. Here, the actuary is working outside the area in which he or she has the necessary skill, knowledge, and experience.

Undue reliance on subordinates. It's common and appropriate that many aspects of an actuarial project be delegated to subordinates. Unless those subordinates are fully qualified to do the work, however, they must be carefully supervised and the actuary must thoroughly review their work.

Inadequate communication with client. The client fails to understand the significance of the actuarial work and its limitations. As a result, the client reaches inappropriate conclusions with respect to the actuarial information. In other situations, the client may represent the actuarial



work incorrectly to regulators or the public.

Failure to meet commitments. We've seen situations in which an actuary agrees to perform certain work and then fails to complete it on a timely basis. In some cases, this is because the actuary is over-extended. In others, the actuary appears simply to have procrastinated. In either case, the actuary's failure had adverse regulatory and financial consequences for the client.

Carelessness. Some of the problems involve simple calculation errors or other careless mistakes, suggesting weaknesses in quality controls.

Of the situations brought to the ABCD that relate to inadequate work product, most involve actuaries who are sole practitioners or who work in small consulting firms. Large consulting firms have developed extensive control and review processes that effectively allow them to avoid many of the quality problems observed with smaller organizations. Perhaps even more important is the ability of a large-firm actuary to discuss issues with other actuaries formally and informally.

This is not to suggest that large-firm consultants are immune from unsatisfactory performance. I'm aware of at least two situations involving actuaries with large firms. In both cases, the problems involved actuaries working outside their area of expertise. Other problems were present as well, including inadequate communication with clients.

We also tend to see few quality issues involving company actuaries. I suspect that this is partly because of the quality control procedures in place within companies. Also, because the client and employer of the actuary are the same, performance issues tend to be addressed internally rather than referred to the ABCD.

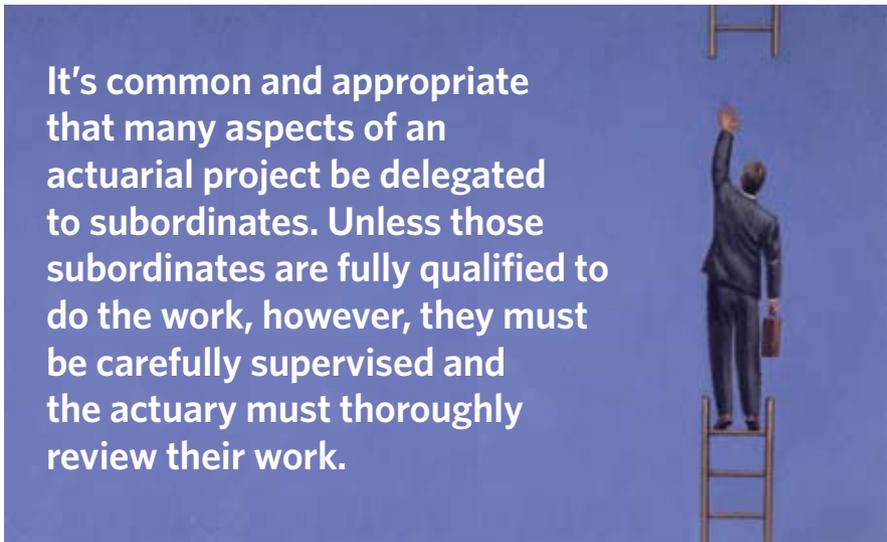
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STEVEN SWIFT / SIS

Conclusions

I've seen enough examples of unsatisfactory work to be convinced that we as a profession need to improve. When we don't do our job, the public suffers, often financially, and the reputation of the actuarial profession is damaged.

Each of us needs to be more humble about our capacity for error. We need to be sure of the adequacy of our quality control mechanisms. We need to be sensitive to circumstances that might make our established procedures and practices inappropriate. We need to be sure our clients fully understand the significance of the information we provide them. We need to be more willing to discuss issues and questions with other actuaries, and we should develop networks of peers to enable us to do it. Perhaps there should be a formal process within the profession to facilitate peer consultation.



It's common and appropriate that many aspects of an actuarial project be delegated to subordinates. Unless those subordinates are fully qualified to do the work, however, they must be carefully supervised and the actuary must thoroughly review their work.

I've been told that there are many more situations involving poor performance that are not reported to the ABCD. Actuaries need to follow the procedures prescribed in Precept 13 of the Code of Conduct when

they encounter unsatisfactory professional performance. We're not doing a practicing actuary a favor when we ignore his or her inadequate work. And we are certainly not doing our profession a favor, either. ●

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