PROPOSAL FOR THE DEVELOPMENT OF A EUROPEAN ACTUARIAL NOTE

EAN PROFESSIONAl JUDGEMENT

Date : 5 February 2020

Context

The field of work for actuaries has been broadening over the past years. In departure from their traditional roles in insurance and pensions, actuaries nowadays are professionals in high demand in all industries as experts in risk assessment and management. The development of the technological environment urges actuaries to integrate artificial intelligence and data science methodologies and the evolution of the political landscape implies explicit expert roles in the field of the actuarial profession.
Hence, it is relevant to work out the distinguishing features of the professional judgment performed by an actuary.

Expert judgment is based on specific training, knowledge and expertise. Professional judgment of an actuary, however, is based not only on the same requirements (i.e. specific training, knowledge and expertise) but also on standards of professionalism and on the Code of Conduct of the profession. It is believed that there is a fundamental difference between judgments provided by an expert not belonging to a profession and by an expert who belongs to a profession and therefore is bound by the standards set by that profession.

Objective

The AAE considers that assistance could be useful for actuaries to apply their professional judgment on several issues related to their day-to-day tasks, namely,
• The duties of the actuary when making professional judgment.
• The choice of data for an assignment.
• How to deal with missing or incomplete data.
• The selection and usage of a model for the data.
• The setting of key assumptions embedded in the model.
• The interpretation of the model outcome.
This short set of considerations could well deserve further development in a EAN that Full Member Associations (FMA) of the AAE might adopt according to their own specificities. Since professional judgment is a key component of actuarial duties, a generally accepted actuarial note on the issue might prove helpful.

Scope

European Standard of Actuarial Practice 1 – General Actuarial Practice (ESAP1) uses the same definition for professional judgment as the Code of Professional Conduct i.e.: it is the judgment of the actuary based on actuarial training and experience.

IAA's definition is more comprehensive than the short ESAP1 characterisation. Besides expertise and knowledge, it encompasses principles concerning values and behaviour and professional accountability.

High-level principles of professionalism considered in this definition are knowledge and expertise, values and behavior, professional accountability.
This extended view is in line with the Code of Professional Conduct published by the Actuarial Association of Europe in 2017 becoming effective for Full Member Associations (FMA) of the AAE on 1 January 2021. The following principles for the work of an actuary are part of this Code of Professional Conduct: integrity, competence and care, compliance, impartiality, communication.

Process

The Task Force Roles of Actuaries has organized a workstream on Professional Judgement since a number of years. The workstream has analyzed and discussed the subject in depth and has published the AAE Commentary Paper "Application of Professional Judgement by Actuaries" in January 2020. This document will be the basis for the proposed European Actuarial Note.

An AAE Webinar on 11 February 2020 is devoted to the subject.

The EAN will be prepared by the workstream "Professional Judgement" (Siegbert Baldauf, Xavier Gomez, Ana Perez) to be completed by new volunteers. The Task Force Roles of the Actuaries will organize the validation.
It is planned to submit a first draft for discussion for the Professionalism Committee in October 2020.