

# A LOOK AT ETHICS AND PROFESSIONALISM

MICHAEL WARD, MAAA, FSA  
MEMBER, AAA COUNCIL ON PROFESSIONALISM  
ACTUARIES CLUB OF THE SOUTHWEST  
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# Ethical Dilemmas

- Consult *Code of Professional Conduct* for guidance (Code)
  - Actuarial Standards of Practice (ASOPs)
  - U.S. Qualification Standards
  - Actuarial Board for Counseling and Discipline
- There may not be a clear right or wrong response to an ethical dilemma! (It wouldn't be a dilemma otherwise, now would it?)



# Working Through Ethical Dilemmas

- ☒ Am I being compliant?
- ☒ Am I being transparent?
- ☒ Am I upholding the reputation of the profession?
- ☒ Am I doing the right thing?



# Code of Professional Conduct

- The Code applies to members of all five U.S.-based actuarial organizations (Academy, ASPPA/ACOPA, CAS, CCA, and SOA).
- If an actuary is subject to the Code, then in addition, “an Actuary is subject to applicable rules of professional conduct or ethical standards that have been promulgated by a Recognized Actuarial Organization [i.e., the relevant national organization that is an IAA full member association or other authorized body] for the jurisdictions in which the Actuary renders Actuarial Services.”
- “Practicing” refers to the jurisdiction in which the work is intended to be used, not the physical location of the actuary.
- Actuaries must remain current with the Code and comply with its provisions.
- Precepts are standards; annotations assist with interpretation/application.



# Code of Professional Conduct

- Actuaries may perform actuarial services only when qualified to do so.
- Actuaries must follow applicable standards wherever they practice.
- When Code and Law conflict, follow the Law.
- Actuaries who commit material violations are subject to counseling or discipline.



# Actuarial Standards of Practice

- Promulgated by the Actuarial Standards Board (ASB).
- ASOPs provide guidance to actuaries who are subject to the Code when practicing in the U.S.
- Not simply a codification of common practice but rather document “appropriate” practice (see ASOP No. 1).
- Gives the intended users assurance about quality and suitability.
- Deviation is permitted but documentation of the nature, rationale, & effect of such deviation must be provided.



# Actuarial Board for Counseling and Discipline

- The Actuarial Board for Counseling and Discipline (ABCD)
  - Investigates complaints that allege material violations of the Code of Professional Conduct (including conduct, qualifications, and practice);
  - Counsels actuaries on practice that complies with the requirements of the Code;
  - Mediates disputes between actuaries and others; and
  - Recommends but does not impose discipline.





# Actuarial Board for Counseling and Discipline

- A cross-border agreement among the national actuarial organizations in the United States, Canada, and Mexico establishes
  - professional responsibilities for cross-border professional services and
  - procedures and authorities of the various organizations relative to investigation and possible discipline of members relative to such services.
- The ABCD is composed of nine persons broadly representative of all areas of actuarial practice.



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# ABCD: Requests for Guidance

- Actuaries seeking guidance on an actuarial matter that may affect their obligations under the Code may contact the ABCD for a confidential Request for Guidance (RFG). Contact information is on the ABCD website.
- The RFG is circulated to appropriate ABCD members who contact the actuary to discuss the issue.
- Alternatively, the entire ABCD may consider such a request.
- Last year alone, the ABCD addressed 104 RFGs.



# Examples of Requests for Guidance

- How do I know if I am qualified?
- How can I become qualified?
- How can I do a job that involves more than one area of expertise?
- How much can I rely on my supervisor?
- How much can I rely on my staff?
- How much documentation of my work should I save? What if I leave my company?
- When should I refuse an assignment?
- When should I make a complaint about another actuary?
- When is a violation of the Code material?
- When is a violation of the Code resolved?



# ABCD Cases Considered in 2017

Practice Area	Pending from 2016 and Earlier	Received in 2017	Total
Casualty	0	5	5
Health	1	5	6
Life	4	2	6
Pension	14	10	24
<b>Total</b>	<b>19</b>	<b>22</b>	<b>41</b>



# ABCD Inquiries in 2017

▪ <b>Action by Individual ABCD Members</b>	
Replied to requests for guidance	104
▪ <b>Disposition by Chairperson and Vice Chairpersons</b>	
Dismissed	9
Dismissed with guidance	1
▪ <b>Disposition by Whole ABCD After Investigation</b>	
Counseled	1
Dismissed with Guidance	1
Recommended Discipline	3
▪ <b>Total Cases Closed (including Requests For Guidance)</b>	<b>119</b>



# Major Issues by Precept

Major Issue Alleged	Discipline	Counsel	Dismiss	Total
<b>Precept 1: Failure to act with integrity</b>	3		6	9
<i>Failure to perform services with competence</i>		1	5	6
<i>Calculation or data errors</i>			2	2
<i>Other errors in work</i>		1	3	4
<i>Failure to uphold reputation of profession</i>	3		2	5
<b>Precept 3: Work fails to satisfy an ASOP</b>		1	6	7
<b>Precept 4: Inadequate actuarial communication</b>			3	3
<b>Precept 9: Disclosure of confidential information</b>	1			1

# U.S. Qualification Standards (USQS)

- Precept 2 of the *Code of Professional Conduct* states in part that:
  - “An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so on the basis of basic and continuing education and experience, and only when the Actuary satisfies applicable **qualification standards.**” (emphasis added)
- The USQS applies to members of all five U.S. based actuarial organizations (Academy, ASPPA/ACOPA, CAS, CCA, and SOA) who issue Statements of Actuarial Opinion (SAOs) in the United States.
- The USQS sets forth qualification requirements for member actuaries practicing in the U.S.
- FAQs on the USQS are provided on the Academy website.



# USQS: General Structure

- Introduction (including definitions)
- General Qualification Standard
  - ▣ Basic Education and Experience Requirements
  - ▣ Continuing Education Requirements
- Specific Qualification Standards (when necessary)
- Changes in Practice and Application (general and specific)
- Acknowledgement of Qualification (suggested language)
- Recordkeeping Requirements





# Academy Ethics Survey

- April 2015 – Academy published results of ethics survey:
  - ▣ [http://actuary.org/files/Key\\_Ethical\\_Concerns\\_Facing\\_the\\_Actuarial\\_Profession.pdf](http://actuary.org/files/Key_Ethical_Concerns_Facing_the_Actuarial_Profession.pdf)
- Survey pinpointed top ethical concerns of practicing actuaries.



## Top 3 Ethical Dilemmas

1. Responding to pressure from principals and/or management to select inappropriate assumptions.
2. False or misleading representation of products or services in marketing, advertising or sales efforts.
3. Failure to take appropriate action when another actuary misrepresents information.



## Other Ethical Dilemmas

Some additional ethical concerns the survey found face practicing actuaries:

- ▣ Conflicts of interest between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities.
- ▣ Misrepresenting or concealing limitations in one's abilities to provide services.
- ▣ Misuse of proprietary/confidential information.



# Case Studies



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# Case Studies Session

- We may break into groups; if so:
  - Each group will have a different case study
  - Identify a representative for group
- Otherwise, we'll all take Case Studies one-by-one
- Read and discuss the Case Study
- Identify issues and applicable standards
- Discuss and, if in a group, vote on group response
- Discuss with everyone



# Case Study #1

You have been working at your current company for a year. It recently came to your attention that your company previously had an extensive backlog of Rate Filing compliance issues. Your CEO instructed that the necessary filings be prepared in order to be in compliance with state regulations.

However, based on discussions with the legal department as well as outside counsel, Management decided not to disclose the non-compliance as part of the filing process. If questioned by regulators as part of the filing review process, the company would admit to the previous non-compliance and take their medicine ONLY if the Regulators asked the right questions.

Is taking action to become compliant sufficient, or are you required to disclose to the Regulators the company's current non-compliance? You brought this issue up with Management and they tell you to keep your mouth shut unless asked.

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What do you do?



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# Case Study #1 - Code

- **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 1-2. 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**.
- ANNOTATION 1-4. An Actuary shall not engage in any professional conduct involving dishonesty, fraud, deceit, **or misrepresentation** or commit any act that reflects adversely on the actuarial profession.



# Case Study #2

2016 was a rough year for Sid the Actuary. His wife left him for another man; he was passed over for a promotion; and his dog died. By June, Sid was self-medicating with alcohol during lunch. Steve the boss, who is also an actuary, noticed but said nothing to Sid.

At the 2016 company Christmas party, where the company – called Actuarial Services Inc. – provided free alcohol to all employees, Sid drank heavily and became highly intoxicated. Steve the boss noticed and was concerned but said nothing to Sid.

At the end of the night, Sid was obviously very drunk, and everyone knew it – he could hardly walk. In fact, Sid tripped and fell while trying to leave the party. While trying to stand up, Sid realized he dropped his car keys and fell again while trying to retrieve them.

Steve the boss walked up to Sid, retrieved the keys, and helped Sid to his feet.





# Case Study #2 (continued)

Sid thanked Steve the boss and asked for his car keys. Although Steve the boss knew that Sid was far too drunk to drive, Steve the boss gave Sid the car keys and did not try to stop Sid from driving home.

On Sid's way home, he went the wrong way down a one-way street and ran head-on into a family of four driving a small car. All four in the small car died – including two small children.

Sid survived.



# Case Study #2

- Did Steve (Sid's boss) violate Precept 1?

**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.**

- Did Sid violate Precept 1?



# Case Study #3

You are the senior partner in a consulting firm. You hear that one of your actuaries may have committed an egregious, though unintentional, act of professional misconduct. What if anything, do you do?



# Case Study #3 - Code

**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.

- ANNOTATION 13-1. A violation of the Code is deemed to be material if it is important or affects the outcome of a situation, as opposed to a violation that is trivial, does not affect an outcome, or is one merely of form.
- ANNOTATION 13-2. An Actuary is not expected to discuss an apparent, unresolved material violation of the Code with the other Actuary if either Actuary is prohibited by Law from doing so or is acting in an adversarial environment involving the other Actuary.



# Case Study #3 (continued)

- ✓ What if you are not the top actuary, but a senior actuary? What, if anything, do you do?
- ✓ What if you are a new actuary in the organization with the status of most junior member? What, if anything, do you do?



# Case Study #4

You are a consulting actuary.

XYZ Insurance Co. asks you to calculate the reserves necessary for the company's annual filing and to provide a statement of actuarial opinion regarding adequacy of its reserves.

Three weeks to complete the work before the filing deadline seems kind of short; however, you are happy to land this client. The CFO promises to get the data to you within the week.

What precepts might apply?

You tell her you will give it your best shot. Did you violate any precepts?



# Case Study #5

You are a consulting actuary – you evaluate blocks of insurance business for possible purchase.

You are working on a report for the **Zebra Casualty Insurance Company** regarding the value of the **United Insurance Company**.

While working on that project, a third company – **Birdlife Company** – asks you to provide it a report on the value of the **United Insurance Company**.

Again, what precepts might apply?



# Case Study #6

Actuary G is consultant for a privately-held insurer and has issued the statement of actuarial opinion for several years. Management has been “optimistic.” Actuary G’s actuarial reports have shown “best estimates” that in truth have been based on “aggressive” assumptions.

Actuary G learns that the owners are selling the company and are including her work in documents that establish the value of the company.

What precepts might guide Actuary G?



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# Case Study #7

Actuary provides services to an insurer which is being sold. Actuary established the reserves recorded on the balance sheet at effective date of sale. Subsequent to the effective date of sale, Actuary becomes aware of three large claims: one reported just before the effective date of sale; one which occurred before the effective date but was reported afterward; and one which occurred just after the effective date.

The claims were unusual and could not be foreseen when Actuary calculated reserves for the effective date of sale. These three claims would have a material impact on Actuary's reserve estimate.

Sales agreement calls for a "true-up" of the balance sheet within 90 days after the effective date of sale.



# Case Study #7 (continued)

- How should Actuary set the reserves? He obviously feels he has a duty to both seller (his former employer) and buyer (his new employer).
- What precepts are implicated here? And what do they counsel Actuary to do?



# Professionalism Resources

- Professionalism Webinar Archive (free to Academy members) <http://www.actuary.org/professionalism-webinars>
- Discussion Papers on various professionalism issues <http://www.actuary.org/discussion-papers>



# Professionalism Resources

- Academy Professionalism webpage

<http://www.actuary.org/content/professionalism>

\* Code of Conduct

\* Qualification Standards

\* Standards of practice (ASB) \* Counseling and discipline (ABCD)



# Professionalism Resources

- Qualifications Attestation Form:  
<http://attest.actuary.org>
- [Applicability Guidelines for Actuarial Standards of Practice](#)
- [FAQs on U.S. Qualification Standards](#)



# Save the Date

**2018**  
**ANNUAL MEETING**  
**AND PUBLIC POLICY FORUM**  
**NOVEMBER 1-2 | WASHINGTON, D.C.**

**November 1-2, 2018 | Washington Marriott Georgetown**



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QUESTIONS?

THANK YOU.

[mikeward@sbcglobal.net](mailto:mikeward@sbcglobal.net)

214-207-9005

