



# PG1 - PRINCIPLES OF PROFESSIONALISM

## 1. Introduction

Professionalism for the actuarial profession means:

- the application of specialist actuarial knowledge and expertise;
- the demonstration of ethical behaviour, especially in doing actuarial work; and
- the actuary's accountability to a professional actuarial association or similar professional oversight organisation on the basis of a code of conduct.

The distinguishing feature of a profession that sets it apart from a trade, a craft, a guild or a syndicate is the overriding interest of the individual professional in the public well-being.<sup>1</sup>

This definition of professionalism is derived from the following high-level principles of professionalism, which are discussed in detail in this report:

- A. Knowledge and expertise
- B. Values and behaviour
- C. Professional accountability

These principles are discussed below.

## 2. Principle A: Knowledge and Expertise

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<sup>1</sup> Source: Estey, W. (1989) *The Challenge of Professionalism. Keynote address at the Centenary Celebrations of the Actuarial Profession in North America, June 1989, Washington D.C.*

*“An actuary shall perform professional services only if competent and appropriately experienced to do so”<sup>2</sup>.*

This principle of Knowledge and Expertise is supported by the following elements:

- Specialist knowledge
- Professional communication
- Required education
- Continuing professional development

## **2.1. Specialist knowledge**

The existence of a distinct actuarial profession globally is a result of actuaries’ specialist knowledge and expertise.

An actuary’s clients may include governments, community organizations, funds, industries, businesses and individuals.

Actuaries are equipped to help their clients make informed choices and develop efficient solutions to safeguard their future in an ever-changing world.

Actuaries provide realistic, innovative and numerate solutions to complex financial and other measurable problems, sometimes over long-time horizons and for uncertain events, using a control process to monitor and refine solutions over time.

Actuaries are experts in modelling complex future events, often developing models from first principles, and are experts in understanding and analysing data. Uses of models include sensitivity analysis and scenario testing in order to communicate the model dynamics and the implications of the model results.

Actuaries apply this skill set within a professional environment which ensures, through adherence to the principles of professionalism, the delivery of competent work, professional ethics, life-long learning and professional standards and discipline. This allows actuaries to make an important contribution to public debate in matters affecting the interests of the public.

## **2.2. Professional communication**

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<sup>2</sup> Source: IAA Internal Regulations 2.2.2 (a) (iv)

Effective and appropriate communication is an essential part of all actuarial work. Communication needs to be clear and appropriate to the circumstances and the intended audience, and to satisfy whatever applicable standards of practice exist and apply to the individual actuary's situation. Appropriate communication includes the ability of the actuary to:

- Document the work done.
- Communicate the basis and the outcome of the work to other actuaries.
- Communicate with others who contribute to the work with courtesy and respect.
- Communicate the assumptions, outcome and implications of actuarial work to the actuary's superior or client.
- Prepare material for presentation.

Actuarial work requires an awareness of the business context to both determine the correct response and effectively communicate results. An actuary therefore needs to ensure that the advice given is communicated effectively, so as to avoid misunderstanding by clients who may not have relevant skills or knowledge.

One of the most important factors in developing and improving communication skills is education. Options that an FMA may consider for furthering communication skills of their member actuaries include offering professionalism courses and continuing professional development focusing specifically on communication skills.

### **2.3. Required education**

Actuaries have a large and specialist skill set, breadth of knowledge, and training.

The IAA, in its Internal Regulations for membership requirements for Full Member Associations (FMA), sets out criteria that include an education syllabus, code of professional conduct, formal discipline process and governing documents of the FMA.

### **2.4. Continuing Professional Development**

Actuaries need to maintain their knowledge, expertise and skills. Actuaries can work in a variety of areas and need to be competent in their chosen area(s) before providing advice. Over time there could also be changes in techniques, regulations, professional standards and codes of professional conduct with which actuaries need to keep up to date.

Continuing Professional Development (CPD) could include analysis of case studies, general topics on ethics and analysis of current problems, so as to enhance the actuary's understanding

of current technical and professional issues.

Lessons can also be learned from the interaction with other professions, knowing their codes of conduct, exchanging points of view, as well as having joint sessions analysing current business or society issues. This issue is important because the professional actuary will often operate in multi-disciplinary teams.

FMA's are encouraged to adopt a CPD strategy.<sup>3</sup> CPD may be supported by a compliance program administered by the actuary's membership association.

### 3. Principle B: Values and Behaviour

"An actuary shall perform professional services with integrity, skill and care. An actuary shall act in a manner that fulfils the profession's responsibility to the public. An actuary shall act in a manner that upholds the reputation of the actuarial profession."<sup>4</sup>

This principle of Values and Behaviour is supported by the following elements:

- Ethical behaviour
- Integrity
- Independent advice
- Trust and reputation
- Responsibility to the public

#### 3.1. Ethical behaviour

Full Members of the IAA must have a code of professional conduct consistent with the principles in the Internal Regulations. The definition of professionalism should explicitly incorporate a reference to ethical behaviour.

For example *"A member shall act honestly, with integrity and competence, and in a manner to fulfil the profession's responsibility to the public and to uphold the reputation of the actuarial*

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<sup>3</sup> Source: IAA Guidelines on Continuing Professional Development (CPD), esp. chapter 2.3

<sup>4</sup> Source: IAA Internal Regulations 2.2.2 (a)(i) and (ii)

*profession*<sup>5</sup>.

Differences of views among FMAs on what constitutes ethical behavior can be accommodated. For example, in some areas individuals are encouraged to expose improper activity (“whistle-blowing”), while in other areas issues are resolved by indirect means.

### **3.2. Integrity**

The foundation of good behaviour is integrity. Consequently, the list of IAA requirements in regulation 2.2.2 (a)(i) begins:

*An actuary shall perform professional services with integrity, skill and care*

Many associations give prominence to integrity in their codes of conduct.

Other professions also describe integrity as the cornerstone of professional ethical behaviour. The IAA Professionalism Committee supports these views.

### **3.3. Independent advice**

An important aspect of professionalism and ethical behaviour is the ability of the actuary, whether employed or not, to express an independent opinion or provide unbiased independent advice, where the circumstances require this. The former Groupe Consultatif, now Actuarial Association of Europe (AAE), produced a discussion paper in 2010 on the topic of operational independence in the context of the actuarial function under Solvency II. This made a number of important points about independence— here understood as freedom from undue influence:

*“... independence ... might be described as the ability to analyse and to make relevant decisions ... without being unduly or inappropriately controlled, constrained or influenced by the management or Board (or Boards) of the company or by any other function.*

*... independence is compromised if there is any form of pressure on the persons carrying out the actuarial function to make a particular decision on the data, methods, assumptions or results of their work.*

*... independence ... involves the exercise of professional judgment, based on education, experience and ethical standards, and the ability to analyse all relevant aspects of the situation in an impartial way to come to an independent conclusion.*

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<sup>5</sup> This definition is used by the Canadian Institute of Actuaries. Definitions of other associations can be referenced on the IAA Professionalism Committee Resources page. See [Professionalism Committee Resources](#).

*... independence is also enhanced through transparency and disclosure of summarised data and results, including reporting on the methodologies adopted, the assumptions used and the thought processes by which they were arrived at.*

*... independence involves the person in question taking personal responsibility and should be demonstrated by personally signing a report which certifies what has been done.*

*Impartiality and independence are enhanced by a requirement to adhere to professional standards, including ethical and governance standards. Typically ethical standards might include specific requirements to:*

- *Ensure competence in relation to the task in question;*
- *Perform the function with integrity skill and care; and*

*Carry out the role with impartiality.*<sup>6</sup>

### **3.4. Trust and reputation**

The Codes of Conduct which underpin the professionalism of member associations are primarily designed to create and maintain trust in the work of actuaries among the users of actuarial advice. Trust and reputation are qualities that take many years to build up but can be destroyed very quickly, even by the actions of a single individual.

To this end, many Codes require the actuary not to do anything that might harm the reputation of the actuarial profession or his or her association. Some Codes also encourage the actuary to strive to enhance the profession's reputation at all times. Such Code provisions create individual responsibility to the profession to which an actuary belongs.

### **3.5. Responsibility to the public**

The essential element that sets a profession apart from a trade, craft or guild is the overriding interest of the professional in protection of the public from unsound practices, whether or not that comes into conflict with the immediate objective of earning his or her living. Professionals owe their status and recognition in society to the trust that the public places in them.

Individual actuaries fulfill their responsibility to the public and to the profession by upholding the values and standards of the profession, fulfilling statutory roles, avoiding conduct which could bring the profession into disrepute and supporting the professional organization that provides

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<sup>6</sup> Source: "Independence – A Discussion Paper", see [Professionalism Committee Resources - Principles of Professionalism](#)

public interface with the profession in the actuary's jurisdiction.

The IAA membership Regulations require provisions in members' Code of Conduct to be consistent with the principle that

*"An actuary shall act in a manner that fulfils the profession's responsibility to the public".*

They also state that *"The Full Member [Association] may provide more specific guidance if it wishes to do so (for example, it may indicate that an actuary could consider advising a client or employer where a proposed course of action would, in the opinion of the actuary, be contrary to the public interest)".*

Provided an actuary meets the requirements of law as well as his or her actuarial association's code of professional conduct and applicable professional standards, then the actuary will be considered to have met his or her responsibility to the profession and to public.

## 4. Principle C: Professional Accountability

Actuaries have professional responsibility to clients and/or employers<sup>8</sup>, the public and to their Full Member Association. In particular,

*"An actuary is responsible for ensuring that the actuary's work conforms to applicable practice standards in the actuary's area of work. An actuary must take into account relevant mandatory practice-related guidance issued or endorsed by the actuary's association, and may take into account any non-mandatory practice-related information that is so issued or endorsed."*<sup>9</sup>

The Full Member Association holds the individual actuary accountable in so far as the actuary is subject to the FMA's disciplinary process.

This principle of Professional Accountability is supported by the following elements:

- Entry and qualification standards
- Code of Conduct / Standards of practice
- Disciplinary process

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<sup>7</sup> Source: IAA Internal Regulations, 2.2.2 (a) (i) and (ii)

<sup>8</sup> Source: IAA Internal Regulations, 2.2.2 (a) (i)

<sup>9</sup> Source: IAA Internal Regulations, 2.2.2 (a) (v)

## 4.1. Entry and qualification standards

Each Full Member Association has its own requirements to admit members and to determine who among them is qualified to do what kind of actuarial work. The detailed requirements vary from country to country. The IAA Education Syllabus as well as the IAA Education Guidelines provide additional background as stipulated in the IAA Internal Regulation 2.2.2 (d).

The admission of members to an FMA will in all cases be under the control and authority of the FMA, based on the FMA's requirements. This may include passing exams established by the FMA, as well as being subject to professional requirements established by the FMA or another regulatory body. Some FMAs will also require completion of work-based skills. The FMA's applicable code of professional conduct must be made available to the actuaries who are members of the FMA.<sup>10</sup>

Note that the IAA Education Guidelines do not prescribe either the education process or the assessment methods.

Also note paragraph 2.4 on Continuing Professional Development.

## 4.2. Code of Conduct / Standards of practice

Professional organizations must have adopted rules that govern the conduct of their members as they undertake the specialized work for which they have been, and continue to be, trained.<sup>11</sup> To this end, the IAA requires its Full Member Associations' Codes of Conduct to be consistent with, the professional principles as set out in IAA Internal Regulation 2.2.2 (a). These principles cover:

- i. integrity
- ii. public interest
- iii. confidentiality
- iv. qualification and competence
- v. conformity with professional standards
- vi. taking responsibility
- vii. disclosure

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<sup>10</sup> Source: IAA Internal Regulations, 2.2.2 (a)

<sup>11</sup> Source: IAA Internal Regulations, 2.2.2 (a)(iv)



- viii. conflict of interest
- ix. consultation with previous actuary
- x. disclosure of related remuneration
- xi. subjection to disciplinary procedures.

IAA member associations may incorporate additional requirements in their codes of conduct as long as these do not lower any of the obligations enumerated in Section 2.2.2(a) of the Internal Regulations.

All members of the actuarial association are required to adhere to their Code of Conduct and failure to do so must be considered a matter for disciplinary consideration. To aid members in their adherence to the Code of Conduct, it must be made readily available to all members of the association and members are to be encouraged to review it from time to time.<sup>12</sup>

The Code of Conduct will also require members to comply with the applicable practice standards. The actuary must take into account relevant mandatory practice-related guidance issued or endorsed by the actuary's association, and may take into account any non-mandatory practice-related information that is so issued or endorsed.<sup>13</sup>

### 4.3. Disciplinary process

To ensure FMAs are serious about their Code of Conduct and members' adherence, FMA must have a formal process of professional discipline for transgressions of the Code. The discipline process must be applied, and be seen to be applied, equably.<sup>14</sup>

The IAA has adopted a short list of criteria to which the discipline processes of Full Member Associations must conform, as specified in IAA Internal Regulation 2.2.2 (b). These are:

"The Full Member must have a formal discipline process in place, including the following:

- i. There is a complaint process accessible to anyone affected by an actuary's work and the actuary's professional peers.
- ii. There is due process of defense available to the actuary complained against, and the actuary's rights are fully respected.

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<sup>12</sup> Source: IAA Internal Regulations, 2.2.2 (a), esp. (a)(xi)

<sup>13</sup> Source: IAA Internal Regulations, 2.2.2 (a)(v)

<sup>14</sup> Source: IAA Internal Regulation 2.2.2 (b)

- iii. There is an objective formal appeal process independent of the body that has ruled at the prior level.
- iv. There are available sanctions appropriate to the seriousness of the violations committed, including termination of membership in the association.
- v. The process shall enable the association to give appropriate notice and information to the public of the results of the complaint process where any penalty is imposed, including providing information to other actuarial associations. Any notice to the public shall be consistent with the discipline process.”

## 5. Adoption

This document is the result of a formal review of the “Principles of Professionalism” by the Professionalism Committee of the IAA.<sup>15</sup> The original version was formally adopted by Council on 23 January 2012, after consultation with the IAA’s FMAs.

The document has been approved by the IAA Executive Committee on [ xx month 2017 ] and ratified by IAA Council on [ yy month 2017 ] as non-binding guidance to aid member associations in their development and maintenance of Professionalism standards.

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<sup>15</sup> Following the “IAA Framework for the production of Professionalism Guidelines”