

Ethics in practice: challenges for actuaries

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**“All professions serve
at the pleasure of the public.**

**More specifically, they owe their right to
practice to the willingness of others to trust in
their expertise and honor”.**

(S. Gunz & M.M. Jernnings, 2011, American Business Law Journal, v. 48 (4): 641–711)



**Ethics : seeking to meet
legitimate expectations towards
professionals**



General expectations towards professionals

- ▶ Act according to high expectations regarding standards of professional practice and rules of professional conduct (professionalism) :
 - ▶ Honesty, integrity, quality of work, competency, truthfulness, objectivity, impartiality...
- ▶ Take the public interest into account, not only those of the client / employer
- ▶ Act in a way that maintains trust

Creating and maintaining trust

- Creating/ maintaining trust requires (1) the perception that we are competent, (2) that we take into consideration our impacts on others, and (3) that we act with integrity

(Mayer, Davis & Schoorman, 1995; McKnight, Cummings, Chervany, 1998 ; Schoorman, Mayer & Davis, 2007)
- Taking the impacts of our actions on others into consideration means, at the very least, respecting their rights and taking their welfare into consideration (McAllister, 1995; Hosmer, 1995)
- Integrity is evaluated according to the extent to which the professional / the organization really adhere, in practice, to the values deemed important by the other party (Mayer, Davis & Schoorman, 1995)

Taking the public interest into account

- ▶ *For a professional association:* Holding the duty of the profession to the public above the needs of the profession and its members.
- ▶ *For the professional:*
 - Meeting the requirements of the law, the Code of Professional Conduct and the Professional Standards ...

Is this sufficient?

- ➔ *In ethics terms:*

“The actuary should consider his ethical responsibility not only to the client or employer but, much more importantly, to the broader set of those in society ultimately dependent on his expertise”.

- Impacts on current and eventual policyholders, current and eventual members of the pension scheme, and the public in general

(S. Gunz & S. van der Laan, 2011, Journal of Business Ethics, v.98:583–596)



**Putting ethics into practice :
Some of the current challenges
faced by actuaries**



1st challenge: Pressures

- ▶ Most important ethical concern of actuaries, no matter how many years they have been practising:

“Responding to pressure from principals and/or management to select inappropriate assumptions used in pricing or reserving” (*Key ethical concerns in the profession, 2015, USA*)

Does the professional actuary have sufficient autonomy to do his work as required by his/her professional code of conduct and best practices?

2nd challenge : Conflict of roles

Valuation example:

“State regulators rely on the actuary as a professional expert to validate the reasonableness of reserves on a statutory basis”

VS

“Company management rely on the actuary as a business manager to set “economically efficient reserves” that optimize company performance and policyholders protection”

The result: “Industry reserves that are seriously deficient on a statutory basis”

(Feldblum, *Professional Ethics and the Actuary*, <https://www.casact.org/pubs/dpp/dpp93/93dpp001.pdf>)



PRICING EXAMPLE:

“State regulators rely on the actuary as a professional expert to set rates on expected differences in loss and expense costs (statistical equity)”

VS

“Insurers rely on actuaries as business managers to set rates based on competitive forces, such as the price elasticity of demand”.

(Feldblum, *Professional Ethics and the Actuary*, <https://www.casact.org/pubs/dpp/dpp93/93dpp001.pdf>)

Where does the primary loyalty of the actuary lie?

- ▶ From the public's & profession's point of view:
 - ☑ Loyalty to the public interest / policy holders / members of a pensions scheme

- ▶ From the employer's / client's view :
 - ☑ Loyalty to the employer / client

- ▶ From a family point of view:
 - ☑ Loyalty to oneself and one's family: keeping my job and getting bonuses and promotions

How can the actuary possibly be loyal to all of them at the same time?

3rd challenge: Conflicts of values

Example (Valuation)- “Does the company have sufficient reserve requirements to meet current and future obligations?”

- ▶ **“The valuation actuary is conflicted between giving an accurate opinion about the company’s ability to repay future claim payments (*honesty, transparency, impartiality...*) and allowing discounted reserves in order to promote the business goals of the company (*profitability, personal and organizational success*) ... Full-value reserves are less attractive to the firm, as it causes them to hold more on their books, but discounted reserves can affect their ability to meet future payments”.**

(M.Dias, 2012, Ethical Dilemmas in an Actuarial World, <https://www.soa.org/News-and-Publications/Newsletters/The-Future-Actuary/2012/summer/Ethical-Dilemmas-in-an-Actuarial-World.aspx>)

Conflicts of values (2)

- What about rating or classifications that the actuary believes are good for the bottom line (*profitability, personal and organizational success*), but harm certain groups or individual unfairly (*welfare of others, public interest...*) ?

How many other recurrent ethical dilemmas do actuaries confront?

Main conflicts of values in organizations

Efficiency

Profitability

Competitiveness

Organizational success

Personal success

Quality

Integrity

Honesty

Transparency

Respect

Fairness



Ethical dilemma

- An **ethical dilemma** is a specific situation in which you must make a decision, where you are torn between two or more alternatives, or don't know what to do,
 - ✓ either because of a conflict of values, or a conflict between a rule and a value, or a conflict in roles / loyalties, which each suggest different ways of acting.



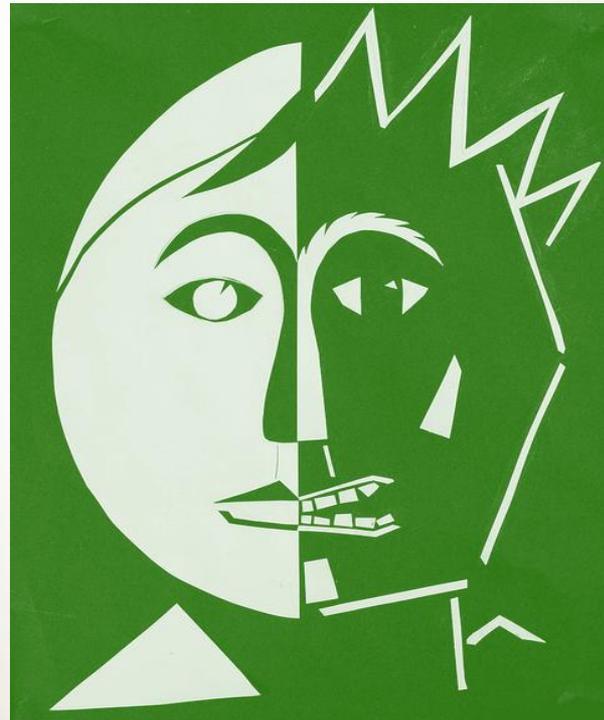
4th challenge: Fear of reprisals if object to or report bad practices

- “Speaking up is a career limiting move”
- Although some countries have protection for whistleblowers who do so in the public interest, not all do- who will protect them from reprisals?

Does your association offer protection / representation to whistleblowers?

Have you publicly asked for legislation for such protection?

Putting ethics into practice : Influences on behavior and decision making



Three types of influences on ethical behavior and decision making

- ✓ **Personal factors** : Personal values, need to belong, professional paradigms and training, past experiences, level of moral development...
- ✓ **Situational factors**: socio-economic context, competitive environment, pressures from clients, public concerns...
- ✓ **Organizational factors** : organizational culture, peer pressure, example of managers, rewards (e.g. promotion & bonus criteria), rationalizations...

How well are actuaries prepared to respond to these challenges ?



Professional codes of conduct

- *Purpose:* Protect the public and clients/employers via certain important rules and obligations
 - conflicts of interests, confidentiality, limits to marketing practices ...etc.
- *Limit #1:* They often provide little guidance to help members solve ethical dilemmas (conflicts of values or loyalties) in real work settings
- *Limit #2:* They do not provide a systematic framework to help analyze and weigh the comparative value of different considerations found in complex / sensitive situations

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- *Limit # 3:* Codes provide **minimal standards** rather than an ideal - seeks to avoid “bad” things, not to encourage professionals to do the best they can, e.g.:
 - Failed to perform professional services with skill and care
 - Performed professional services without being qualified to do so and without meeting applicable qualification standards
 - Signed the Valuation Report as a peer reviewer without having reviewed all aspects of the valuation
 - Report were not prepared in compliance with applicable Standards of Practice

**Professional associations of
actuaries :**

What more could be done?



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1. Have guidelines and *practical* advice available (either in a separate booklet or as an annex) to help members apply the rules of the code.
 2. Showcase ethics in periodic communications to members – including ethics queries that you might ask them to comment / answer, or testimonies, to get them involved.
 3. Create opportunities for dialogue between professionals on the ethical dilemmas they encounter, for a network of support.
 4. Provide coaching / mentoring / confidential advice mechanism for guidance as to what constitutes appropriate professional conduct in a particular.

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4. Prepare and make available an ethical decision making (EDM) framework tailored to the reality of actuaries.
 5. In addition to formal training on the code itself, give training to develop the necessary competencies for analyzing and solving ethical dilemmas and raising ethical issues with peers and superiors.
 - ▶ Remember: there is often more than one way to solve an ethical dilemma
 6. At annual meetings: have 2-3 fellows prepare beforehand and discuss (panel) how they would analyze and solve specific ethical dilemmas
 - ▶ These people often become ambassadors of ethics afterwards
 7. When taking public positions on ethical issues related to the profession, use the EDM framework to deepen your analysis.

FRAMEWORK FOR ETHICAL DECISION MAKING : an example



For each option ask yourself:

1. What laws, standards and rules (e.g. code of professional conduct) are applicable to this type of situation, if any?
2. What could be the consequences of my decision (*short and long term; positive and negative*) on each different stakeholder (*client / employer, future or current policy holders, future or current members of pension plan, general public, me, etc.*)?
3. What values are upheld, or not, by each of these consequences? (*e.g.: respect, honesty, fairness, transparency, impartiality, efficiency, performance, quality...*)
4. Am I respecting fundamental human rights and human dignity? Am I treating everyone fairly? Am I treating people only as means to other ends, or as human beings with needs and goals of their own?

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5. Which option would have the best impact on public trust towards our organization and our profession?
 6. Considering all of these factors, what would be the best decision, under the circumstances and why?
 - It is **the best** I can do in the circumstances?
 - Could I find a better solution if I was a bit more creative or if I thought things through more?
 7. How can I minimize the residual negative impacts of this decision and take the other important values into account in the way I **implement** my decision?
 8. Would I be embarrassed or feel guilty or ashamed if my boss, my peers, or my family knew the decision I had taken? If so... maybe I should start this analysis over again!

Conclusion

