



AMERICAN ACADEMY *of* ACTUARIES

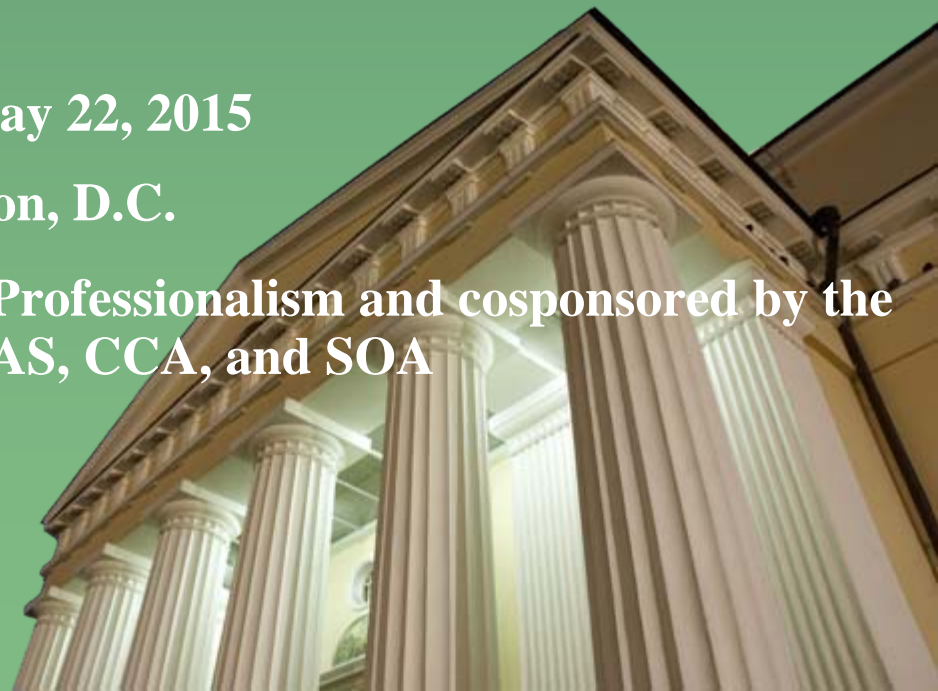
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Report on Actuaries' Perceptions of Key Ethical Issues

Webinar – May 22, 2015

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Sponsored by the Academy's Council on Professionalism and cosponsored by the
ASPPA (ACOPA), CAS, CCA, and SOA



Presenters

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Disclaimer

Please note: The presenters' statements and opinions are their own and do not necessarily represent the official statements or opinions of the American Academy of Actuaries (Academy), any boards, councils, or committees of the Academy, nor do they express the opinions of their respective employers.



Agenda

- Introduction
- Survey History
- Survey Results
- Specific Issues



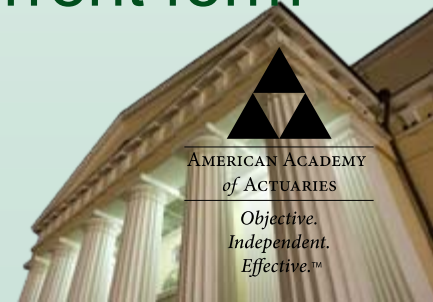
Introduction

■ Academy Mission

One of the most important goals in pursuing the mission of the Academy is to house, create, and promote actuarial professionalism for all credentialed actuaries rendering actuarial services in the United States.

■ Source

The core of actuarial professionalism is the Code of Professional Conduct (Code), adopted by the five U.S.-based actuarial organizations in its current form in 2001.



Survey History

- In the fall of 2012, an opportunity to conduct a survey of Academy members with the focus on professionalism and ethics was brought to the Council's attention.
- First cross-practice survey of the profession.
- Council representatives worked with the researchers to create the survey.



Survey History

- Over 3,300 Academy members completed the survey.
- Over 20% of then Academy members responded.
- Council on Professionalism reviewed and summarized results.
- Final publication April 2015
http://actuary.org/files/Key_Ethical_Concerns_Facing_the_Actuarial_Profession.pdf



Survey Results

- Demographic Breakdown
 - Area of practice
 - Employment
 - Academy membership length
 - Geographic location



Survey Results

■ Survey Structure

- 18 potential ethical concerns
- Rank by level of concern

■ Interpretation of Results

- Response concentration of “4” or “5” considered of greater concern
- Response concentration of “1” or “2” considered of lesser concern



Survey Results

■ THE GOOD NEWS

- None of the 18 ethical issues was considered to be overwhelmingly great concerns for the actuarial profession.

■ IS THIS GOOD NEWS ?

- The profession does not have serious ethical issues;
OR
- The profession does not perceive itself as having serious ethical issues.



Survey Results

- Issue that scored highest level of concern:
“Responding to pressure from principals and/or management to select inappropriate assumptions used in pricing or reserving”
- Number one issue across all practice areas
- Number one issue regardless of length of Academy membership
- Number one issue across regions



Survey Results

- Issues ranked two through four:
 - False or misleading representation of products or services in marketing, advertising, or sales efforts
 - Failure to take appropriate action when another actuary misrepresents information
 - Conflicts of interest between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities



Survey Results

- Issues ranked five through eight:
 - Misrepresenting or concealing limitations in one's abilities to provide services
 - Misuse of proprietary/confidential information
 - Failure to provide complete and accurate information to regulators
 - Conflicts of interest involving business or financial relationships that influence, or appear to influence, one's ability to carry out professional responsibilities

Specific Issues

- Responding to pressure from principals and/or management to select inappropriate assumptions used in pricing or reserving
 - Unlike all the other questions, does not necessarily refer to a specific Precept in the Code
 - Distinguishing feature of actuarial work
 - Potentially the greatest source of misunderstanding by the public of the work actuaries perform
 - Potentially the greatest source of uncertainty in actuarial work products



Specific Issues

- Responding to pressure from principals and/or management to select inappropriate assumptions used in pricing or reserving
 - Sources for assumption setting (such as ASOP Nos. 8, 10, 18, 22, 26, 27, 28, 35, 36, 40, 44, and applicable regulations)
 - Why potential pressure
 - Resources for the actuary



Specific Issues

- Responding to pressure from principals and/or management to select inappropriate assumptions used in pricing or reserving
 - What is the public's expectation regarding our assumption setting?
 - How can the selection of assumptions be an ethical issue?



Specific Issues

- Responding to pressure from principals and/or management to select inappropriate assumptions used in pricing or reserving
 - Ethics and reasonable assumption setting
 - Definition of ethics
 - What is assumption setting
 - The ethical challenges in decision making deal with rationalization
 - How we arrive at decisions and justify them



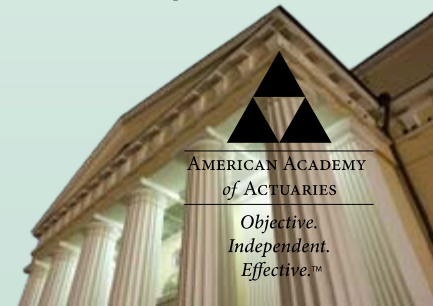
Specific Issues

- Responding to pressure from principals and/or management to select inappropriate assumptions used in pricing or reserving
 - Actuarial judgement
 - Range of reasonableness
 - Source for public confusion
 - Risk to the profession of mistrust
 - Often re-evaluated with benefit of hindsight



Specific Issues

- False or misleading representation of products or services in marketing, advertising, or sales efforts
 - Precept 11: Advertising or business solicitation activities with respect to actuarial services
 - Annotation 11-1: Advertising and business solicitations activities clarified
 - Precept 8: Actuarial services not used to mislead other parties
 - Annotation 8-1: “...should recognize the risks of misquotation, misinterpretation, or other misuse of the Actuarial Communication and should therefore take reasonable steps. . .”



Specific Issues

- False or misleading representation of products or services in marketing, advertising, or sales efforts
 - Why is this perceived as an issue for actuaries?
 - Particular portion of industry?
 - Business pressure?



Specific Issues

- Failure to take appropriate action when another actuary misrepresents information
 - Precept 13 compliance
 - Resolution required
 - Obligation to address the issue

More information

- ABCD 2014 Annual Report
<http://www.abcdboard.org/publications/annual.asp>
- Council on Professionalism paper on Precept 13
http://www.actuary.org/files/Precept_13_Discussion_Paper_FI_NAL121913.pdf



Specific Issues

- Conflicts of interest between opportunities for personal financial gain (or other personal benefits) and proper performance of one's responsibilities
 - Precept 1: Honesty and integrity
 - Precept 6: Disclosure



Specific Issues

- Misrepresenting or concealing limitations in one's abilities to provide services
 - Precept 2: Actuary shall perform actuarial services only when qualified to do so
 - Precept 1: Honesty and integrity
 - Annotation 1-4: Nothing that will reflect adversely
 - U.S. Qualification Standards
 - Keeping pace with legal or regulatory changes
 - Cross-practice area challenges
 - Emerging practices or new laws, such as PBR or ACA



Specific Issues

- **Misuse of proprietary/confidential information**
 - “Confidential Information” is defined in the Code as:
“Information not in the public domain of which an Actuary becomes aware as a result of providing Actuarial Services to a Principal. It includes information of a proprietary nature and information that is legally restricted from circulation.”
 - Information is clearly proprietary/confidential when spelled out by contract, or when implied by law.
 - Precept 9: Confidential information
 - Precept 1, Annotation 1-4

Specific Issues

- Misuse of proprietary/confidential information
 - Responsibility to be clear on what is confidential
 - Distinction between not public and confidential
 - Clarify understanding of ownership of expertise developed
 - Contractual clarity



Specific Issues

- Failure to provide complete and accurate information to regulators
 - Precept 10: Courtesy and professional respect
 - Annotation 10-1: Discussions of differences of opinions
 - Precept 1, Annotation 1-4



Specific Issues

- Conflicts of interest involving business or financial relationships that influence, or appear to influence, one's ability to carry out professional responsibilities
 - Precept 7: Conflicts of interest



Conclusion

- What does this mean for the actuarial profession?
- Discussion

More resources

- Professionalism webinars
<http://www.actuary.org/professionalism-webinars>
- eLearning Center
<http://www.actuary.org/content/actuarial-elearning-center>

