Conflicts of Interest

When Doing Volunteer Work

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The purpose of this paper is to help Academy volunteers[1] identify any actual or potential conflicts of interest they might have, and to suggest what actions might be considered to address such conflicts. Specifically, this paper covers:

- What is a conflict of interest?
- How does the Code of Professional Conduct apply to an Academy volunteer?
- What actions should the volunteer take if a conflict of interest exists?

What is a Conflict of Interest?

"Conflict of interest" is a term used in different contexts with different meanings. It seems obvious, but its definition can be frequently elusive. Put simply, a conflict of interest is an interest that prevents, or could prevent, a person from performing some task objectively—or an interest that could lead an observer to perceive such conflict, whether it exists or not.

An example of a conflict of interest is that of a relative appearing before a judge. In such a situation, the judge would disclose the relationship and seek a recusal from the case.

Applicability in a Classic Commercial Sense

A classic commercial conflict of interest is caused by the existence of some circumstance outside the business relationship (such as a financial or personal relationship) that could affect the professional's judgment. An example is a consulting actuary who has prepared an appraisal of an insurance company (the actuary's client) looking to sell itself where the actuary will benefit financially if the sale occurs. The interest might be caused by ownership of stock in the company, a contingent fee agreement, or some other circumstance that would create a conflict.

The actuary should disclose the interest in the outcome to the client (the insurance company), secure its consent to do the work, and disclose the conflict of interest to any prospective buyer that is given the appraisal (the other principal in this case).

Applicability to an Academy Volunteer

Because one aspect of the Academy's mission is to provide "independent and objective actuarial information, analysis, and education for the formation of sound public policy," the Academy needs to be able to rely on the input from its committees to be able to support that mission—and the committees, in turn, need to be able to rely on the volunteers that make up the committees. This would mean that if a volunteer had an actual, potential, or perceived conflict of interest with respect to that mission, said volunteer would be required to disclose that conflict to the other members of the committee (provided such disclosure would not cause the volunteer to violate confidentiality or other prohibitions on disclosure) and secure consent to participate in the committee's work. In the event the volunteer would be precluded from disclosure because of confidentiality or other prohibitions, the volunteer should refrain from participating in the committee work for which potential or perceived conflict exists.

[1] In this paper, "volunteer" refers to Academy members and nonmembers who serve as volunteers or interested parties on Academy committees, subgroups, work groups, task forces, boards, etc.

What Actions Should the Volunteer Take If a Conflict of Interest Exists?

A typical situation with Academy volunteers involves serving on a work group that is developing recommendations to assist a governmental or quasi-governmental body on actual or model laws and regulations. A volunteer who is an employee of, or a consultant for, a company that will be affected (beneficially or adversely) by the model laws and regulations has at least a potential conflict of interest.

To the extent that such proposed legislation affects the industry in general, no disclosure is necessary, because the potential conflict of interest is understood by the members of the committee, whose goal it is to produce an objective analysis and recommendation. But if any member of the committee works for a firm or has clients that would be more severely impacted by the proposal than the industry in general, this should be disclosed to the other members of the committee. Such disclosure gives the other members of the committee an opportunity to consider the views in question in the appropriate context.

Consider the example of a consulting pension actuary on the Pension Practice Council who is preparing a response to proposed regulations on funding tax-qualified pension plans. The consulting pension actuary's primary clients are very large, long-established manufacturing companies with super-mature pension plans. The consulting pension actuary has been told, as part of consulting assignments with these companies, that any increases in funding requirements would likely tip the companies into bankruptcy. The proposed regulations would require large increases in contributions, putting the actuary's clients—and their own revenue stream—at risk.

The actuary in this example would have the choice of disclosing the additional information to the Pension Practice Council (i.e., that the impact to the particular client segment could be impacted to the point that some companies could be tipped into bankruptcy) or recusal from the work of developing the Academy response. If, after disclosing the additional information, the actuary still believes they can be objective, they may choose to participate in development of the Academy response with the consent of the relevant committee chairperson. The disclosure gives the other members of the practice council an opportunity to consider the conflicted member's views in the appropriate context.

Volunteers are very likely to be exposed to this type of conflict of interest. Generally the actuaries with the expertise on a particular issue are the ones who would be most affected by regulation governing it. But if an actuary believes they can be objective about the issue, despite possible company pressure to take a certain side, and the committee chairperson agrees, contribution to the committee's work would usually be appropriate.

An actuary should consider what to discuss with their employer about a potential committee assignment before accepting such an assignment. This might include the actuary's responsibility to be objective.

Role of Committee Chairpersons in Managing Conflict of Interest Issues

The chairperson of a committee should make sure that the composition of the committee reflects a diverse range of views, and the views of all committee members have been appropriately considered in preparing an Academy report. Particularly under time pressure, it is easy to reflect only the views of the committee members who have actively participated.

Further, the chairperson must be aware of any potential conflict of interest to be able to fulfill this obligation. When a committee member discloses a conflict of interest, the committee chairperson needs to consider carefully whether the disclosing member can act objectively before consenting to that member's continuing participation.

If the chairperson is concerned that a work product reflects a position that may have been influenced by a potential conflict of interest, or that it aligns too closely with publicly held positions of the employers of one or more committee members, the chairperson should consider reopening discussions.

Conclusion

If the volunteer is unsure whether a conflict exists—and if so, what action should be taken—the volunteer is encouraged to consult with the member supervising the activity or the Academy's general counsel.

In order for the Academy to fulfill its mission, the Academy board and all those in leadership positions should set policies and conduct activities in such a way to assure volunteer conflicts of interest do not impugn the integrity of Academy work products.