

Professionalism: The Good, The Bad & The Ugly

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Overview

- Why Professionalism Matters
 - UK Equitable Life
 - US Discipline Cases
- Code of Professional Conduct
- Role of the ABCD
- Continuing Education Requirements

Why Professionalism Matters: The Good

- Image of the Actuary
- Image of the Industry
- Professional and Personal Integrity

Why Professionalism Matters: The Bad & The Ugly

- UK Example – Equitable Life
- US Examples – Public Discipline

UK Recent Developments

- 2000 Near-Failure of Equitable Life Assurance Society
- 2004 Report by Lord Penrose
- 2005 Government-Sponsored Morris Review of the Actuarial Profession
- Impacts on UK Actuarial Profession

UK: Equitable Life

- Equitable Product Features
 - Retirement annuities with generous long term guaranteed payout rates
 - Rates applied to subsequent contributions
 - Non-guaranteed terminal bonuses
 - Amounts paid often not supportable
 - No reserves for accrued terminal bonus
 - Competitive pressures to maintain market share
- 1998 – 2000: Equitable Life v Hyman re Bonuses
- 2000: Attempted Sale of Company
- December 2000: Equitable Closed for New Business
- 12/31/2001: Liabilities – Assets = £3 bln
- July 2001: Reduced terminal bonuses retroactively
- 2007: Annuity block sold to Canada Life and Prudential
- 2008: Government guilty of “comprehensive failure”

UK: 2004 Penrose Report

- Purpose:
 - Enquire into the circumstances leading to the current situation at Equitable Life
 - Identify lessons to be learnt for conduct, administration, and regulation of life insurance business
 - Give a report thereon to the Treasury Ministers

UK: 2004 Penrose Report

- Issues Concerning Actuarial Profession
 - Lack of Comprehensive Professional Standards
 - Over-Reliance (by Equitable Board) on the Role of the Appointed Actuary
 - CEO was also the Appointed Actuary
 - Lack of Scrutiny and Audit of Actuarial Calculations
 - Reactive Disciplinary Procedures
 - Reluctance to Challenge Fellow Actuarial Professionals
- Current Accounting and Audit Standards Not Adequate for Long-Term Business
- Regulatory Structure - Over-Reliance on Appt Actuary
- Full Report (800+ pages):
 - http://www.hm-treasury.gov.uk/indrev_pen_index.htm

UK: Penrose Report – The Ugly

- Not Helpful to the Image of the Actuary:

“The Society’s solvency position was bolstered over the period by the ... adoption of the weakest valuation basis, plus a series of particular valuation practices of dubious actuarial merit.”

UK: Morris Review

- March 2005 “Morris Review of the Actuarial Profession” focused on:
 - the extent of competition and choice in the market for actuarial services;
 - the regulatory framework for members of the actuarial profession; and
 - the future role of the Government Actuary’s Department (GAD).
- Full Text:
 - http://www.hm-treasury.gov.uk/d/morris_final.pdf

UK: Morris Review

- Regulatory Framework/Self-Regulation
 - Weak professional standards
 - No monitoring of compliance with standards
 - Profession not “forward-looking” enough
 - Self-regulatory framework proved to be inadequate to protect the public interest
 - Proposed independent oversight of the profession’s self-regulation by Financial Reporting Council (FRC)
 - Regulatory framework includes:
 - Education and continuing education
 - Establishment of roles reserved exclusively for actuaries
 - Duties and obligations to protect the public interest
 - Setting professional and ethical standards
 - Monitoring compliance and administering discipline

AAA Response to Morris Review

- Letter in response to Interim Morris Review
 - Requested that Final Report Limit Scope to UK
 - Discussed ASOP 41: Actuarial Communications
 - Referred to US Requirement to include a “financial expert” on Audit Committee
 - Discussed Actuarial Education and Continuing Education in US
 - Referred to Code of Professional Conduct and Discipline/Counseling Approach in US
 - Outlined hierarchy of professional standards in US

US Hierarchy of Professional Stds

- Code of Professional Conduct
- Actuarial Standards of Practice (ASOPs)
- Applicability Guidelines
 - For various tasks routinely performed by actuaries, which ASOPs normally apply
 - Organized by Speciality (Casualty, Health, Life, Pension)
- Practice Notes
- Discussion Papers

Professionalism in the US

- Revised Qualifications Standards
- Continuing Education Requirement for Professionalism Topics
- Professionalism Topics Incorporated into Actuarial Meetings
- Web-Based Professionalism Presentations
- Life & Health Qualification Seminar
- Contingencies Articles on Professionalism

US: Actuarial Discipline

- Actuaries expelled: 9
- Actuaries Suspended: 3
- Actuaries Publicly Reprimanded: 6
- Actuaries Privately Reprimanded: Unknown

- Total Academy members: 10,000

Actuaries Expelled

- 1975 - Two actuaries expelled (and jailed) re 1975 Equity Funding Life Insurance Company fraud
- 1985 – Actuary defrauded pension plan
- 1994 – 1997 – Three expelled, no public details
- 2005 – Failure to comply with Precepts 1 and 14 of Code of Professional Conduct
- 2009 – Material violation of Precepts 1(a) and (c) of Academy’s Guides to Professional Conduct and Precept 1 of Code of Professional Conduct
- 2009 – Failure to comply with Precepts 1, 2, and 14 of Code (embezzled from 401K plan, stole withholdings, stole from escrow account)

Short Quiz

- What does Precept 1 say?
- What does Precept 2 say?
- What does Precept 14 say?
- Stay tuned...

Actuaries Suspended

- 1985 – Violation of Precept 1a related to selling counterfeit computers; 5 yr suspension
- 1994 – No details, 2 yr suspension
- 2008 – Failure to comply with precepts 1, 9, 13, and 14 of Code, 2 yr suspension
 - Lifted early after actuary completed professionalism course prescribed by the ABCD

Another Short Quiz

- What is Precept 1?
- What is Precept 9?
- What is Precept 13?
- What is Precept 14?
- Stay tuned...

Actuaries Publicly Reprimanded

- 1986: Failure to file personal income tax return
- 1996: Failing to comply with applicable standards of professionalism
- 1998: Failure to comply with Precepts 1, 2, 4, 5, and 16 in filing actuarial opinion
- 2000: Failure to comply with Precept 1
- 2000: Failure to comply with Precepts 1, 10
- 2007: Failure to comply with Precept 2

Code of Professional Conduct

- Effective January 1, 2001
- Applies to all Academy Members
- Identifies responsibilities actuaries have to:
 - The public
 - Their clients and employers
 - The actuarial profession
- Practice Only When Qualified
- Full text at http://www.actuary.org/pdf/prof/code_of_conduct.pdf

Precept 1: Professional Integrity

- “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.”
 - Equitable Funding (expelled)
 - Embezzling from 401K plan and escrow acct (expelled)
 - Failure to file income tax return (publicly reprimanded)
 - Selling counterfeit computers (suspended)

Precept 2: Qualification Standards

- “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.”
 - Refer to “Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States”, effective January 1, 2008
 - Can result in expulsion, suspension, reprimand

Precept 3: Standards of Practice

- “An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.”
 - Homework: Read all current and proposed ASOPs at
“<http://www.actuarialstandardsboard.org/asops.asp>”

Actuarial Standards of Practice (ASOPs)

- Provides Framework for performing actuarial assignments
- Offers guidance on relevant issues; captures acceptable practices, documentation, and disclosure
- Plenty of room for actuarial judgement; not narrowly prescriptive

Actuarial Standards of Practice (ASOPs)

- 44 ASOPs
- Most recent is #44: “Selection and Use of Asset Valuation Methods for Valuations”
- Often Applicable:
 - #23 Data Quality
 - #41 Actuarial Communications
- Exposure Drafts (includes revision of #41)
- Discussion Drafts (precede exposure drafts)

Precept 4: Communication and Disclosure

- “An Actuary who issues an Actuarial Communication shall take appropriate steps to ensure that the Actuarial Communication is clear and appropriate to the circumstances and its intended audience, and satisfies applicable standards of practice.”

Precept 5: Communication and Disclosure

- “An Actuary who issues an Actuarial Communication shall, as appropriate, identify the Principal(s) for whom the Actuarial Communication is issued and describe the capacity in which the Actuary serves.”

Precept 6: Communication and Disclosure

- “An Actuary shall make appropriate and timely disclosure to a present or prospective Principal of the sources of all direct and indirect material compensation that the Actuary or the Actuary’s firm has received, or may receive, from another party in relation to an assignment for which the Actuary has provided, or will provide, Actuarial Services for that Principal. The disclosure of sources of material compensation that the Actuary’s firm has received, or may receive, is limited to those sources known to, or reasonably ascertainable by, the Actuary.”

Precept 7: Conflict of Interest

“An Actuary shall not knowingly perform Actuarial Services involving an actual or potential conflict of interest unless:

- (a) the Actuary’s ability to act fairly is unimpaired;
- (b) there has been disclosure of the conflict to all present and known prospective Principals whose interests would be affected by the conflict; and
- (c) all such Principals have expressly agreed to the performance of the Actuarial Services by the Actuary.”

Precept 8: Control of Work Product

- “An Actuary who performs Actuarial Services shall take reasonable steps to ensure that such services are not used to mislead other parties.”

Precept 9: Confidentiality

- “An Actuary shall not disclose to another party any Confidential Information unless authorized to do so by the Principal or required to do so by Law.”
 - One of suspension cases resulted from an actuary discussing confidential issues on a bulletin board

Precept 10: Courtesy and Cooperation

- “An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal’s interest.”
 - See annotations
 - Differing opinions/methods/assumptions among actuaries
 - One of public reprimand cases resulted from failure to follow Precept 10

Precept 11: Advertising

- “An Actuary shall not engage in any advertising or business solicitation activities with respect to Actuarial Services that the Actuary knows or should know are false or misleading.”

Precept 12: Titles and Designations

- “An Actuary shall make use of membership titles and designations of a Recognized Actuarial Organization only in a manner that conforms to the practices authorized by that organization.”

Precept 13: Violations of the Code of Professional Conduct

- “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.”

Precept 14: Violations of the Code of Professional Conduct

- “An Actuary shall respond promptly, truthfully, and fully to any request for information by, and cooperate fully with, an appropriate counseling and disciplinary body of the profession in connection with any disciplinary, counseling, or other proceeding of such body relating to the Code. The Actuary’s responsibility to respond shall be subject to applicable restrictions on Confidential Information and those imposed by Law.”

Role of the ABCD

- ABCD = Actuarial Board for Counseling and Discipline
- Three Functions:
 - Investigate alleged violations of Code of Professional Conduct and recommend discipline
 - Counsel (provide guidance to) members
 - Mediate disputes between members and others
- Inquiries, guidance, mediation typically confidential
- Member organization makes final decision on any discipline

Requests for Guidance

- Examples:
 - 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?
 - Issues related to relationships with clients or competitors

Contacting the ABCD

- Letter: 1850 M St., N.W., Suite 300, Washington, D.C. 20036
- Telephone: (202) 223-8196; (202) 872-1948 (fax)
- Website: www.abcdboard.org
- Contacting any individual ABCD member or ABCD staff (contact information on website)

Continuing Education Requirements

- AAA Qualification Standards for Prescribed Statements of Actuarial Opinion
 - 30 hour annual requirement
 - Minimum of 6 hours of “organized activities”
 - Minimum of 3 Hours on Professionalism Topics
- SOA CPD Requirements
 - 60 hour requirement over two-year period
 - Many actuaries practicing in US will comply under Alternative Compliance Standards (often the US Qualification Standard)

Professional Standards in Canada

- Actuarial Standards of Practice
 - Developed by Actuarial Standards Board (ASB)
 - Published by Canadian Institute of Actuaries
- Rules of Professional Conduct
- CIA Guidance Materials
- Actuarial Standards Oversight Council (2007):
 - Ensure that standard-setting processes of the ASB are appropriate and responsive to public interest
 - Inform the ASB of the views represented on the ASOC
 - Appoint members of the ASB

Ethical Issues

- Conflict of Interest – consulting firm on both sides
- Gifts received from consultants/given to clients
- When to file complaint with the ABCD
- Use of company time and resources
 - Time spent on internet/email while at work
 - Personal phone calls/texts while at work
 - Company copy machine/supplies
- Tracking billable hours
- Certifying reserve adequacy
- Personal example: No 1099 – do I declare income?
- General test: What would “reasonable actuary” do?

Rethinking Professionalism

- From “*Who has time to think about Professionalism?*”
- To “*Who has time NOT to think about Professionalism?*”
 - It’s hard to follow the rules if you don’t know the rules

“Relativity applies to physics, not ethics”

-Einstein