



CARIBBEAN ACTUARIAL ASSOCIATION

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Professionalism In The Business Context

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The Public's Perception

- Public recognition of professional organizations in existence over 100 years
- Track record of technical competence and professional reliability
- Official recognition from regulators
- A few cases have blemished the record
 - Pension mis-selling
 - Equitable Life closure
 - DB fund insolvencies
- Natural to blame the professionals



Backdrop to Morris Review

- House of Lords judgment against Equitable...
- ...ruled terminal bonus policy illegal
- closure of Equitable Life in December 2000
- perceived losses of many policyholders
- Lord Penrose Inquiry established August 2001
- reported March 2004; Morris Review set up
- criticisms of company, regulators & actuaries
- Morris Review reported March 2005



A Few of Penrose's Criticisms

- lack of comprehensive professional standards
- over-reliance on role of Appointed Actuary
- lack of scrutiny and audit of actuarial work
- reactive disciplinary proceedings
- reluctance to challenge fellow professionals
- actuarial standards too vague and general



Accolade from Sir Derek...

- “no reason to doubt that the overwhelming majority of actuaries in the UK are anything other than dedicated, skilled professionals, providing important and useful advice with commitment, integrity and a strong sense of professional duty”

Sir Derek Morris, Final Report of Review



Criticisms of the UK Profession by Sir Derek Morris

- profession has been too introspective, not forward-looking enough and slow to modernise
- too much expected and too much promised
- insufficient transparency in actuarial advice
- no pro-active monitoring of members' compliance with professional standards



Verdict on Standard-setting

Criticisms that actuarial professional standards

- have at times been weak and ambiguous
- have failed to resolve contentious issues
- have lacked consistency across practice areas
- have been dominated by commercial interests
- have had insufficient independent and lay input into the standard-setting process
- “the profession has failed to ensure a coherent, consistent and comprehensive set of standards”



The Public Interest

The actuarial profession has an obligation to serve the public interest. Collectively it seeks to do so by informed contribution to debate on matters of public interest and by influencing those with power to protect and enhance the public interest. Individually members must maintain and observe the highest standards of conduct. The standing of the profession depends on the judgement of individual members.

Professional Conduct Standards V2.3, Section 2.1



How the Profession Serves the Public Interest

- by providing skilled, trustworthy actuaries to meet both business and society's needs
- by meeting the requirements for current and future statutory prudential roles
- by the acceptance of roles which ensure financial protection for consumers
- by contributing to ethical business decisions which result in profitable and publicly worthwhile activities
- by providing authoritative and objective input to public debate
- by providing clearer guidance on whistle blowing



How can Employer's of Actuaries help serve the Public Interest

- Build professionalism into the reward system
- Build internal systems with effective quality controls
- Design quality controls that are commercially viable
- Encourage development of trust with clients and stakeholders



Public Interest and the Individual Actuary

- fiduciary relationship with client
- build controls in the organization to ensure quality
- communicate impact of issues but client has ultimate right to take decision
- expose wrongdoings but resignation is last resort



not just actuaries...

- Corporate disasters Enron, WorldCom and all that...
- ...leading to Sarbanes-Oxley Act in 2002
- dangers of external criticism everywhere
- why were the professionals involved not able to prevent the abuses from happening.



SoA Research on Actuaries

Strengths	Weaknesses
<ul style="list-style-type: none">▪ Ethical values	<ul style="list-style-type: none">▪ Communication
<ul style="list-style-type: none">▪ Solving complex problems	<ul style="list-style-type: none">▪ Innovative thinking
<ul style="list-style-type: none">▪ Quantitative modelling	<ul style="list-style-type: none">▪ Appreciation of business context
<ul style="list-style-type: none">▪ Risk management skills	<ul style="list-style-type: none">▪ Business savvy
<ul style="list-style-type: none">▪ Industry knowledge	<ul style="list-style-type: none">▪ Leadership



Other Criticisms of Actuaries

- design of opaque or risky products
- underfunding of defined benefit pension plans
- ...even the demise of defined benefit plans
- bias towards interests of employers
- undeclared conflicts of interest
- pensions mis-selling
- old-fashioned valuation methodologies
- failure to project mortality improvement
- widespread concern about low savings levels



The Business Environment

- pressures for higher revenues and profits
- desire for more market share
- increasingly competitive environment
- conflict between costs and quality control
- need to develop culture of zero tolerance of defects...
- ...and of deviation from high ethical and practice standards



Mission of IAA



To encourage the development
of a global profession,
acknowledged as technically competent
and professionally reliable,
which will ensure that the public interest is served



Rebuilding Trust

- strong and effective standards
- culture of professionalism
- good systems of control
- peer review and independent audit
- communicating understanding of process
- communication of uncertainty
- transparency and openness



The Challenge

- A reward system that motivates people to give their best while preventing the worst behaviour
- openness, transparency and accountability
- proactively limiting obfuscation
- explicit recognition of conflicts
- transferring the resolution of conflicts to the parties advised – not for the actuary to resolve
- treading the thin line between a fiduciary relationship and telling the client what they want to hear



Future Action Plan

- compliance with standards
- foresight and vision
- be alert to problems and how others see us
- mature into professional thinking and attitudes that permeate every action and communication
- be worthy of others' trust
- go out of our way to limit obfuscation



Discussion

Actuaries

The Best-Kept Secret in Business™

Turn Risk Into Opportunity™

The Actuarial Profession

making financial sense of the future

