



Code of Conduct in Action

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Agenda

- Review Professional Code of Conduct
- Discuss Specific Cases

Sources for Today's Presentation

- Society of Actuaries
 - Intercompany Long-Term Care Insurance (ILTCI) Conference - 2014
 - Health Boot Camp - 2011
 - <https://www.soa.org/>

Code of Professional Conduct

- You are required to keep current with the Code
 - Also applicable Law and other rules of professional conduct within your jurisdictions
 - http://www.actuary.org/pdf/prof/code_of_conduct.pdf
- We will review the code today
- *Note: the paraphrasing is my interpretation and should not be construed as an official interpretation of the SEAC, SOA, or any other actuarial organization.*

Precept 1: Professional Integrity

- Be honest
- Use Skill and Care
 - Don't be deceitful or intentionally misrepresent
- Don't do anything illegal, or that would hurt the profession's reputation
 - Includes using 3rd party relationships to engage in improper activity

“It takes less time to do a thing right than to explain why you did it wrong.”

- Henry Wadsworth Longfellow

Precept 2: Qualification Standards

- Make sure you're qualified
 - Basic education
 - Experience
 - Continuing education
- Must be qualified even if qualification standards for a particular assignment do not exist

Perform actuarial services only when you are qualified.



"Nurse, get on the internet, go to SURGERY.COM, scroll down and click on the 'Are you totally lost?' icon."

Precept 3: Standards of Practice

- You must satisfy applicable Standards of Practice
 - *It's your responsibility to know what those are and keep up with changes*
 - If no Standard applies to the work, use professional judgment and generally accepted actuarial principles and practices
 - If you depart from the Standards you must justify why

Precepts 4, 5 and 6: Communications and Disclosure

- Actuarial communications must:
 - Be clear and appropriate
 - Identify the responsible actuary
 - Indicate who can provide supplementary information
 - Identify the Principal

Precepts 4, 5 and 6: Communications and Disclosure

- You must disclose sources of compensation in relation to an assignment
- If you are not independent you must disclose this to the Principal
- Disclosure is required regardless of your firm's operating locations

Precept 7: Conflict of Interest

- You should not perform Actuarial Services involving an actual OR potential conflict of interest, unless:
 - You are able to act fairly
 - You have disclosed the conflict to all Principals
 - All Principals have agreed on your performance of the services

Precept 8: Control of Work Product

- You should make sure your work is not used to mislead others
 - Recognize the risks of misquotation and misinterpretation
 - Construct and present your Actuarial Communication to avoid this
 - Include limitations on the distribution and utilization of the Communication

Precept 9: Confidentiality

- Don't disclose confidential information
 - Unless Principal authorizes
 - Unless required by Law

Precept 10: Courtesy and Cooperation

- Use courtesy and respect
- Cooperate with others in the Principal's interest
 - Differing opinions are ok
 - You can work for a Principal even if another actuary is already doing so
 - It's ok to give alternative opinions to a Principal
 - You can (should) consult with the prior actuary, but only with consent of the Principal
 - If you are the prior actuary, you should cooperate with the new actuary

Precept 11: Advertising

- Don't use false or misleading advertisement for Actuarial Services
 - Includes all media trying to influence any person or organization

Precept 12: Titles and Designations

- Your title and designation should be only used in a way that is authorized by the organization
 - “Title” means from an actuarial organization

Precept 13 and 14: Violations of the Code

- If you are aware of a material violation of the Code by another Actuary:
 - First discuss it with the other actuary
 - Then, disclose to ABCD
 - Unless contrary to law, or violating confidentiality
- Material violation:
 - Important
 - Affects the outcome of a situation

Precept 13 and 14: Violations of the Code

- If asked to provide information or cooperate with a counseling or disciplinary body, you should do so promptly and truthfully
 - Subject to restrictions of Law/ confidentiality

Scenario 1 - Scotty

Scotty is the bright but wayward son of a wealthy and influential insurance broker. He has managed to become a credentialed actuary despite the fact that his hours on the golf course and in the clubhouse at the country club have far exceeded his hours with actuarial textbooks. Several years ago, he was offered a position at ABC Consulting (ABC) because of a favor owed to his mother. But Scotty has thrived at ABC, turning those golf games with his mom and other insurance company executives into new business for ABC.

Scenario 1 - Scotty

Scotty has been managing a project for Skip, the CEO of a division of Giant Insurance Inc. Scotty's team at ABC has uncovered a flaw in the pricing structure of a block of the division's individual health insurance business, and the block, formerly thought to be profitable, will now be reported as unprofitable. ABC is planning to share its preliminary findings with Giant tomorrow.

Scotty goes home to sort through a pile of bills, left unpaid because of his work deadlines and social engagements. He comes across a birthday card that he had completely forgotten, from two months before he began the project with Giant, in which his mom announced her birthday gift to Scotty of \$50,000 in Giant Insurance stock, deposited into his brokerage account. Fortunately, Scotty has Skip's cell phone programmed into his phone because of a recent early morning golf game, and calls Skip to tell him about the stock, as well as his latest favorite off-color joke. Skip has already been warned about ABC's results, and he laughs at Scotty, and says he is fine having the ABC team finish up the work and report.

Scenario 2 - Lauren

Lauren has been working for SmallPensions LLC since she received her Pension Track FSA 5 years ago. The firm does occasional retiree medical valuation work, and they retain a contracted health actuary when health actuarial expertise is needed. Lauren has become interested in health work over the past couple of years, because it seems “more like art than science”, but she has never done any work in the health area.

Scenario 2 - Lauren

One of Laruen's pension clients has asked SmallPensions to do the projections and pricing of their self-insured employee health care plan, with a one-week turnaround. Unfortunately, the contracted health actuary is out of the country for the next three weeks. The client has provided all the data that was provided to the prior actuary, and the prior actuary's spreadsheets and report are well-documented. Lauren is able to do the work, using the prior actuary's analysis, and is even able to update some of the trend and utilization assumptions based on a chapter of an old Group Insurance textbook that she found in her firm's library. She delivers a detailed, signed report, outlining her assumptions, methods and data, meeting the delighted client's deadline.

Scenario 3 - Haley

Haley is a smart and highly conscientious FSA who works for National Health Insurance Company (NHIC). Because of her high quality work over the few years she has been at NHIC, she has been promoted and now leads a team of pricing actuaries. What she lacks in social graces, she makes up for in hard work, a results-oriented focus, and fairness in managing her team.

Scenario 3 - Haley

Haley's group had a short turnaround to get loss ratio results out for its Eastern-upper-West-Midwest Region, for additional work needed by the marketing manager of that region. Her team is able to use excellent teamwork to get the right data, crunch the numbers, and get the results peer reviewed within the deadline. The results show a favorable loss ratio for that market. Since the marketing manager is waiting on the results, Haley does not want to waste time with a full report, and instead sends the following concise and efficient email to the marketing manager:

“Per your request and our discussion, the loss ratio for the most recent reporting period is 54%. Please let me know if you need additional information.”

The regional marketing manager forwards this email to his boss, the Marketing Director, who forwards it to her boss, the Chief Marketing Officer, who forwards it to the CFO with the following email:

“Wow, great company-wide results! Should we send a special communication to the Board of Directors this evening, or wait until tomorrow morning?”

Scenario 4 - James

James came from a modest background, and put himself through college and two graduate programs – actuarial science and statistics, where he also flew through the ASA exams/modules. In grad school, James was frequently called on to find creative statistical solutions in several departments of his large university. James had spent the past few years working for a major insurance company doing research and analytic project work for all areas of the company. Unfortunately, James' department was eliminated in the economic downturn, and James is now doing contract work to pay his family's bills.

Scenario 4 - James

James is hired by his old friend Joe Badoff, to do a fascinating stochastic modeling project. Joe has not provided many background details, but has provided a large database of observational data points, and asks James to provide a long term stochastic forecast to enable him to “optimize the ROI”. James enjoys the project, especially because Joe pays him 50% of the generous fees up front. James is just finishing up the results, when he begins to learn of similar activities of Joe’s cousin, Mernie Badoff, whose pyramid scheme is coming unraveled, bringing with it the fortunes of thousands of investors. Although Joe’s enterprise, in contrast to Mernie’s, appears to be legal and legitimate, James is concerned that the association could taint his work and the work of actuaries if the media decides to make an example of the less-famous cousin.

On the other hand, James has already received half his fees, and he has simply done the analysis he was asked to do. He is not at risk for anything except perhaps some media coverage of the work of actuaries. James turns his report over to Joe and is paid the remaining 50% of his fees.

Questions?