

Tools and Rules for Understanding and Maintaining Ethical Practice

Southeastern Actuaries Conference
June 19, 2024

Speaker

2



Kenneth A. Kent, MAAA, FSA, FCA, EA

Immediate Past President, American Academy of
Actuaries

Member, Council on Professionalism and Education

Speaker

3



Melissa Zrelack, MAAA, EA, FCA

Member, Committee on Professional Responsibility
American Academy of Actuaries

Disclaimer

4

Our statements and opinions are our own and do not necessarily represent the opinions of the American Academy of Actuaries or our employers.

We will be discussing areas that reflect our experience and knowledge as volunteers with the American Academy but in which we are not necessarily experts.

About the American Academy of Actuaries

5

Founded
1965

Key goal:
maintain and
promote
actuarial
professional-
ism & self-
regulation

Represents
qualified
actuaries of
all
specialties

National
association
for U.S.
actuaries &
voice on
public policy
issues

Membership
today:
>20,000
individual
actuaries

Our Discussions Today

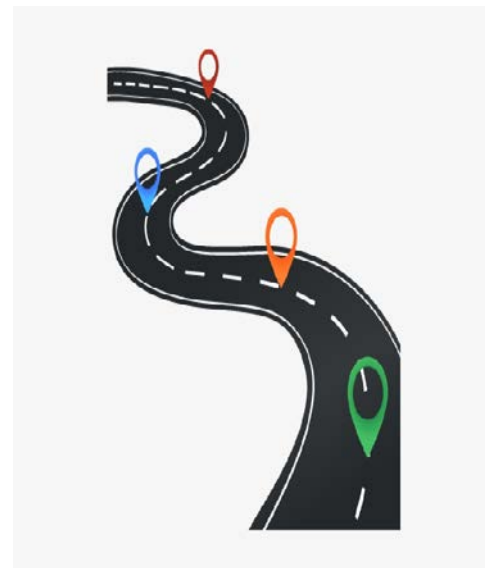
6

- Explore the concepts of ethics and bias
- Look at what it means to be a member of a profession
- Highlight importance of preservation of our professional independence and self-regulation

Ken's Journey

7

- Joint Committee on the Code of Professional Conduct
- Enrolled Actuary continuing ed. requirement change in 2011
- Council on Professionalism of the Academy
- U.S. Qualification Standards



Melissa's Volunteer Experiences

8

- Committee on Professional Responsibility (COPR)
- Conference of Consulting Actuaries
Public Plans Committee
- Professionalism committee

Why Do We Need Ethics Education? ⁹

Are you ethical?

How ethical?

How do you know?

What do you do that demonstrates that you are ethical—or not?



What Should We Define as Bias? ¹⁰

A disproportionate weight in favor of or against an idea or thing, usually in a way that is inaccurate, closed-minded, prejudiced, or unfair.

At the same time, ethicists support that there is no such thing as an entirely rational person—that all of us have biases.



Are You Biased or Is Your Work Biased?

11

Is all bias bad?

What can you do about it?

What if your work is biased?

How do you resolve differences in “you”
bias and/or work bias?

Why do we need to be educated and
address bias?



U.S. Qualification Standards Provide ¹²

Continuing education should include bias topics including content that provides knowledge and perspective that assist in identifying and assessing bias that may exist in data, assumptions, algorithms, and models that impact actuarial services?



Consider This

13

Ethics is about the decisions/choices
we make and
how we rationalize them

Our rationalization can be based on our bias

Where Are You on a Scale of 1-10?

14

If 10 is ethical in everything you do and 1 is unethical in everything you do, where do you fall?



Code of Professional Conduct

15

14 Precepts

No mention of ethics, ethical standards, or specific label of ethical behavior in any of the Precepts

Code of Professional Conduct

16

Under the Code “Purpose” in the 2nd paragraph

*The Precepts of the Code identify the professional and **ethical standards** with which an actuary must comply in order to fulfill the Actuary’s responsibility to the public and the actuarial profession.*

Ethical Standards

17

What are ethical standards—not defined in the Code or the actuarial standards of practice?

Are the Precepts clearly ethical standards?

“Defined as a set of principles established by the founders of the organization to communicate its underlying moral values.”

Ethical Standards

18



Moral Values

Ethical Standards Underlying Moral Values

19

Moral values—the behavioral practices, goals, and habits which are validated by the society we're part of.

Dependent on social relations built around certain shared principles, belief systems, and ways of life.

Code of Professional Conduct

20

So, the Code provides a framework that can be used as a reference for decision-making processes

Our ethics is embedded in and governed by our work through the decisions made and reflect society's cultural expectations goals and habits

Code of Professional Conduct

21

Do the Code and our decisions pertain strictly to our work, our statements of actuarial opinion?

Precept 1 says *An Actuary shall act honestly with integrity and competence, and in a manner to fulfill the profession's responsibility to the public to uphold the reputation of the actuarial profession.*

Annotation 1-4 says *An Actuary shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit an act that reflects adversely on the actuarial profession.*

How We Make Decisions

22



Bias

Everyone Has Bias

23

Bias is a disproportionate weight in favor of or against an idea or thing, usually in a way that is inaccurate, closed-minded, prejudicial, or unfair. Biases can be innate or learned. People may develop biases for or against an individual, a group, or a belief.

We All Have Them; Are They Bad?

24

- What is expected?
- Consider and accept them
- Test and share them
- Diversity is a solution
- Disclose them
- Work to reduce them when recognized

But What About Work Product

25

- Causation vs. correlation
- Big data, algorithms, evolving regs. And societal requirements
- Responsibility versus conflict of interest
- So, what is the U.S. Qualification Standards bias education about:
 - Work product?
 - Individual?

Decision-Making Process

26

Rational Decisions Process—
the ability to make
decisions without external
influences or biases.

Can this happen?



What Happens When

27

A mistake is made



Stated in a Senate Hearing

28

“Truth is a second chance”

What Does It Mean to Be a Profession?

29

- Specialized knowledge
- Responsibility to the public
- Accepted practice
- Code of conduct
- Discipline process
- Membership

What Does It Mean to Be a Profession?

30

And if we achieve these elements, we maintain the
public trust and are entitled to continue to be
self-regulated

Self-Regulation and the Actuarial Profession



What Does It Mean to Be Self-Regulated?

32

Actuaries determine and establish appropriate standards of conduct, qualifications, and practice, and they discipline actuaries.

Often many regulatory requirements—laws and regulations—but the U.S. profession itself is self-regulated, for the most part.

Why Do We Want to Be Self-Regulated?

33

“It is our challenge to write standards we can live with before someone else writes standards we cannot.”

—Walter Rugland, VP of the Committees on Accreditation, Qualification, and Communication, in *Actuarial Update*, September 1984

How Do Actuaries Benefit From Self-Regulation?

34

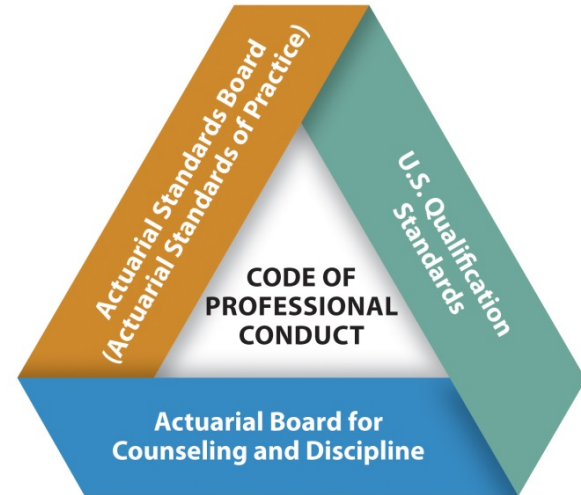
Self-regulation

- Is a more efficient and effective way to govern the profession.
- Supports the evolution of actuarial practice because of the principles-based nature of the ASOPs.
- Prevents enactment of rules that are not actuarially sound.

How Is Self-Regulation Maintained?

35

- Code of Professional Conduct
- Qualification Standards
- Standards of Practice
- ABCD—Discipline Process



Web of Professionalism: Code

36

Code of Professional Conduct

- » “The Code of Professional Conduct sets forth what it means for an actuary to act as a professional. It identifies the responsibilities that actuaries have to the public, to their clients and employers, and to the actuarial profession.”



Web of Professionalism: Qualification

37

Qualification Standards are issued by the Academy and developed by the Committee on Qualifications. They apply to actuaries issuing Statements of Actuarial Opinion (SAOs) in the United States.

- » Any actuary who is a member of one of the five U.S.-based actuarial organizations
- » Any SAO being rendered in the U.S.

A Statement of Actuarial Opinion is an opinion expressed by an actuary in the course of performing actuarial services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed.

Web of Professionalism: ASOPs

38

Actuarial Standards of Practice

- » Identify what should or must be considered, documented, and disclosed for any actuarial work product
- » Provide guidance for performing various types of actuarial work
- » Provide room for exercising actuarial judgment when performing actuarial work

Actuary's responsibility to determine which ASOPs apply to an assignment

- » Applicability Guidelines

Web of Professionalism: ABCD Inquiry

39

Typically based on a complaint from individual, such as:

- » Client
- » Regulator
- » Another actuary



Web of Professionalism: ABCD Inquiry

40

Is a fact-finding, not an adversarial, forum

Determines whether the subject actuary materially violated the Code of Professional Conduct

Recommends discipline, when appropriate, to membership organization

- » The ABCD cannot impose discipline. Membership organizations determine whether to impose discipline according to their own procedures.

Web of Professionalism: ABCD Inquiry

41

Types of disciplinary actions

- » privately reprimand
- » publicly reprimand
- » suspend
- » expel

Professionalism Toolbox

42

Code of Professional Conduct
Actuarial Standards of Practice
Requests for Guidance from ABCD
Reliance Statements
Documentation and Caveats
Peer Review
Discussion Papers

Peer Review

43

Often improves quality and professionalism of actuarial product

Discussing assumptions, methodology, outcomes, and results with a peer reviewer can

- » improve documentation
- » help ensure objectivity
- » provide alternative perspectives
- » offer the actuary additional support for recommendations, even when actuaries disagree
- » provide clarity for client/principal

Peer Review

44

Challenges

- » time and cost constraints
- » lack of qualified personnel
- » emerging practice areas

Other considerations

- » peer review of non-actuary

Peer Review—Case Study

45

A client calls and needs the findings of an analysis by tomorrow morning, and there isn't enough time for peer review. What do you do?

Responsibilities of Each Actuary

46

- Exemplify professionalism
- Monitor other actuaries and ask questions
- Participate in the profession, e.g., review of proposed ASOP changes, participate on committees

Responsibilities of Supervising Actuaries

47

- Create a culture of professionalism
- Encourage open discussion of differences
- Support actuaries' qualification before you put them in a new position

ABCD Request for Guidance

48

- » Guidance on an actuarial matters that you believe may affect your obligations under the Code
- » Confidential advice on appropriate professional practice from an individual member of the ABCD
- » Valuable tool
- » Uncommon in other professions

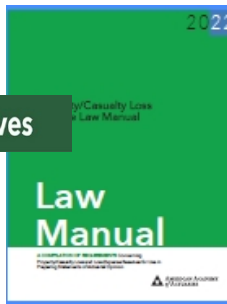
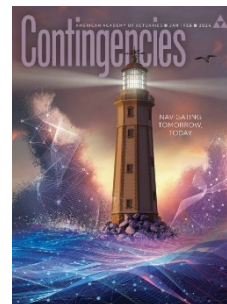
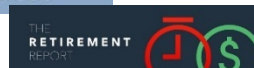
Discussion Questions

Publications & Resources

50

- This Week: on Fridays
- Actuarial Update: once a month
- Contingencies: every other month
- Quarterly **practice-specific** publications:

- Professionalism Counts articles
- Professionalism discussion papers
- Research papers
- Life & Health, and Property/Casualty Law Manuals



COPR Discussion Papers

51

- *The Actuary's Toolbox: Peer Review—How Can It Help?* (2024)
- *Professionalism Considerations for Working in Developing Areas of Actuarial Practice* (2023)
- *Explaining Professionalism to Principals* (2021)
- *Professionalism for the Solo Actuary* (2021)
- *Self-Regulation and the Actuarial Profession* (2020)
- *Considerations of Professional Standards in International Practice* (2016)
- *The Application of Precept 13 of the Code of Professional Conduct* (2013)

Available at <https://www.actuary.org/discussion-papers>.

Additional Resources

52

- [Applicability Guidelines](#)—A tool to help actuaries determine which actuarial standards of practice may apply to an assignment.
- Publications from actuarial organizations. Academy publications include:
 - » Practice-area quarterly newsletters
 - » Life and Health Valuation Law Manual
 - » Property/Casualty Loss Reserve Manual
 - » Practice notes
 - » Professionalism discussion papers

Continuing Education Opportunities

53

- 40+ webinars in all actuarial practice areas and professionalism annually (*Members access the entire archive of recorded Academy webinars **for free***)
- Effective P/C Loss Reserve Opinions Seminar
- Casualty Loss Reserve Seminar (with the CAS)
- Life and Health Qualifications Seminar
- PBR Bootcamp
- Symposia on Health Equity, Retirement, and more
- Annual Meeting



Enhancing Member Value

54

Held by **20,000+** members, the MAAA is recognized by legislators and regulators and referenced **1,400+** times in federal and state legislation and regulations.



sample—for display only

Share Your MAAA

55

- The Academy's new digital badge allows members to showcase their achievement, support, and commitment to the actuarial profession.
- If you are a member, make sure to [claim and share your badge](#).

