

# **Professional and business codes of ethical conduct – their relevance to actuarial education, research and practice**

**Bridging the gaps  
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## Discussion points and objectives

- Discussions points:
- Can we use codes of conduct? To **bridge the gap** between
  - Government and the business world, particularly the finance industry
  - actuarial practitioners and other professions
  - teachers and researchers
- Codes of conduct with their purpose of **servicing the public interest** – should we **embed this in education and research** as well as practice?
- **Public debate** on big issues based on clear analysis and transparency – is this the best way to **serve the public interest** on big issues?
- **Are codes of conduct effective** – to what extent can codes of conduct with appropriate incentives influence behaviour?
- Objectives – to provoke debate; to make changes in actuarial education and research protocols

## Codes of conduct – how can they be effective?

- Global and national codes
  - FRC UK Corporate Governance Code
  - FRC UK Stewardship Code
  - UN Principles for Responsible Investment
- Professional codes – serving the public interest
  - **The Actuaries' Code**
  - ICAEW Code of Ethics
  - Institution of Engineering & Technology Rules of Conduct
- Business codes of ethics
  - Goldman Sachs Code of Business Conduct and Ethics [January 2011]
  - Lehman Brothers Code of Ethics [February 2004]
  - **Your own employer's code of conduct**

## Serving the public interest – what does this mean?

- Serving the public interest
    - in lots of Royal Charters, including the Actuaries' Charter
  - Purpose Box in Actuaries' Code: the Code must be observed
    - .... **in the public interest**
    - .... in order to build and promote confidence in .... actuaries ....
  - “Members will respect confidentiality unless disclosure is permitted by law and justified **in the public interest**”
  - An in-built dilemma:
    - Duty of confidentiality under Principle 1.2
    - Whistle blowing duty under Principle 4.1 and 4.4
- only resolved by knowing what “**in the public interest**” means

## Case Study – Disclaimer

- The case study for discussion is deliberately hypothetical.
- In particular, the character “**you**” is entirely fictitious.
- Readers may recognise similarities with a number of real-life case studies. This helps give the hypothetical case study more credibility. Readers can also learn further lessons from these real-life case studies.
- The presenter recommends that discussions of professional and business ethics issues are based on the hypothetical case study:
  - to avoid the risk of misrepresenting any aspect of real-life situations
  - to help focus discussion on business and professional ethical issues, avoiding the detailed technical issues contained in the real-life case studies.

## Case Study: Beyond fat-tail – obese-tail modelling

- “You” are a leading researcher subject to the Actuaries’ Code [if not an actuary, a similar ethical code may apply]
- You win a research project from GIG, Global Insurance Group
- This involves obese-tail modelling:
  - Frequentist data mining combined with
  - Stress-testing subjective probabilities using causal-linked Bayesian nets [Riccardo Rebonato: Coherent stress testing....., Wiley 2010]
- After the project starts, you realise the expert panel providing decisions on stress-testing probabilities is controlled by GIG
- Your research paper is used by GIG to develop new retirement products involving low-value guarantees for which a highly profitable AMC is charged

## Case study – Successful products + lots of research

- GIG's new products are fast growing and highly profitable
- Your research is prominently featured in:
  - GIG sponsored research conferences
  - GIG's promotion and marketing of its new products
- You become a recognised expert in this successful field
- You receive a regular stream of research projects from research bodies, some with distant links to GIG funding
- You discover that alternative fat-tail models are used by:
  - GIG Structured Products to handle the “low-value” guarantees via Catastrophe Bonds and CDS products
  - GIG Capital Management to handle regulatory requirements

## Case study – bounded ethics and it all goes wrong

- Your reputation grows as your research work thrives
- But initially you worry about your obese-tail research
- You receive reassurances from other researchers in climate change, pharmaceutical drugs, behavioural finance – all thriving with large research budgets from relevant sponsors
- At the peak of your career you face:
  - A mis-selling scandal with GIG paying fines and £ billions in compensation
  - Cross-examination by Government committees
  - Being summoned as a witness-of-fact in GIG's litigation court case
  - An AADB investigation into potential professional misconduct

The AADB deal with cases which raise/appear to raise important issues affecting the public interest  
These need to be investigated to determine whether there has been any misconduct by an actuary.

## Exam question examples - Commutation

- You have been asked to review the commutation factors.
- Existing commutation factors are £12 lump sum for each £1 per annum pension exchanged – irrespective of the member’s age at retirement. The commutation terms are decided by the Trustees acting on actuarial advice.
- The Finance Director is keen to retain the existing factors. The Trustee Chairman appears willing to agree to the Finance Director’s request.
- (i) Who are the relevant **stakeholders** with an interest in changing or retaining the existing commutation terms?
- (ii) What **conflicts of interest** exist amongst the various stakeholders?
- (iii) What steps should be taken by you – as the Actuary who provides advice on the commutation terms – to **minimise the risk of being sued for negligent work or receiving a misconduct complaint?**
- (iv) What advice should you give the Trustees to assist the Trustees in deciding what actions to take in order to **minimise the Trustees’ risk of litigation?**

## Exam question examples – Healthcare reform

- The UK Government has just announced a major reform of the National Health Service (NHS). This has created opportunities for financial institutions to compete to run NHS services.
- You have been asked to lead a team charged with investigating this opportunity and to write a report, analysing the business opportunities of this NHS reform.
- What **risk management actions** should you take to maximise the successful completion of this project, in terms of project management, selecting the internal project team, hiring in outside expertise?
- These actions should include those designed to ensure the team meets the **professional conduct standards in the Actuaries' Code**.

## Exam question examples – Actuaries' Code stuff

1. The Disciplinary Scheme of the Actuarial Profession contains two separate rules on misconduct.
  - a. Explain what is meant by misconduct as defined in the main rule on misconduct.
  - b. Explain the extra rule which describes situations where an actuary may be liable for misconduct. You should explain why the five main principles of the Actuaries' Code is relevant to this rule.
2. As members of a chartered profession, actuaries have a core obligation to serve the public interest.
  - a. Explain what is meant by the serving the public interest.
  - b. Give four examples of steps you would expect an employer of actuaries to take to assist its actuaries in achieving the objective of serving the public interest.

## Exam question examples – More Actuaries' Code stuff

3. The Actuaries' Code states that “members will be expected to observe the Code's spirit in their professional conduct”.
  - a. Explain what is meant by observing the Code's spirit.
  - b. Give four examples where an actuary's actions or behaviour might be different because that actuary decided to observe the spirit of the Actuaries' Code.
4. Give an example, one for each of the three issues below, to illustrate the following professional issues:
  - a. Actions needed to avoid becoming liable for misconduct under the extra rule on misconduct in the Disciplinary Scheme
  - b. Observing the spirit of the Actuaries' Code
  - c. Serving the public interest.

## Enhancing Bloom's Taxonomy

- Bookwork [CT exams]
  - **Remembering** bookwork
  - **Understanding** bookwork
  - **Applying** bookwork to simple practical problems
- Higher order skills – or consulting skills [CA, ST and SA exams]
  - **Analysing** complex problems
  - **Creating** potential solutions and next steps
  - **Evaluating** solutions against the needs/priorities of each stakeholder
- Professional/business ethics skills [all exams including all first degrees?]
  - **Challenging** scope, raising relevant issues not identified by the client
  - **Culture awareness** [ERM], including the importance of the work environment
  - **Risk awareness** of negligence litigation, [frivolous] misconduct complaints, reputational risk, regulatory risk, failing to act in the public interest.
  - **Savvy** – FRC+FSA stuff, big issues, next scandal, what NEDs, CEOs, CROs, CFOs worry about etc

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