

The Actuarial Profession
making financial sense of the future

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Professional conduct: challenges in pensions

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A quick recap on the Actuaries' Code etc

- Integrity
- Competence and Care
- Impartiality
- Compliance
- Open Communication

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1

Blind Spots – ethical fading and ethical bias



Bazerman & Tenbrunsel – "Blind Spots" – Princeton University Press, 2011

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2

Professional conduct Protocol for discussing case studies + Disclaimer

- The case studies for discussion are deliberately hypothetical
- In particular, the characters are designed to be entirely fictitious
- The presenter recommends that discussion of professional conduct issues is based on the hypothetical case studies:
 - to avoid the risk of misrepresenting any aspect of the real-life case studies
 - to help focus discussion on professional issues, avoiding the detailed technical issues contained in the real-life case studies

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3

Hypothetical case studies

1. Pension error?
2. Enhanced transfer values
3. AssetProtect [modeling error]

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4

Pension Error?

- You are the supporting actuary on a DB pension scheme
- In practice you have drafted most advice in recent years
- You have for some time been aware of an anomaly in the Rules
- You have raised this several times but your boss (to the point of irritation) has always told you to ignore it as he thinks there is no issue
- Your boss retires and you take over as Scheme Actuary
- At the next actuarial valuation what do you do about the anomaly? If there has been a misunderstanding of the Rules it will materially increase liabilities

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5

Pension Error?

- You decide that it is right to raise the issue but you first speak to your legal and compliance team
- After some time you have heard nothing but you are aware that the issue has been discussed by senior managers in your firm
- You are then told that a colleague has visited your client and that the issue has been dealt with
- What do you do?

Pension Error?

- You are shown a note of a meeting at which the matter was discussed. In your view the matter was not fully explained and “led” your client to the conclusion that suited your firm. What do you do?

Pension Error?

- You are shown a note of a meeting at which the matter was discussed. In your view the matter was not fully explained and “led” your client to the conclusion that suited your firm. What do you do?
- You again raise the issue internally and you are told quite firmly that the issue is not an “actuarial” matter and that better qualified people in your firm have taken a view and reached the right outcome. What do you do?

Enhanced Transfer Values

- You are engaged by an Employer with a DB pension scheme on a “risk management” exercise
- It is clear from the outset that your client wishes to close down and wind up the DB pension scheme at minimum cost
- The Employer is aware that persuading members to transfer out in advance of wind up will lead to lower overall cost
- Your brief is to put together a proposal to be taken to the Trustees to persuade them to engage in an ETV exercise
- Do you accept the brief?

Enhanced Transfer Values

- Although you are aware that the Employer intends to force a wind up of the DB Scheme at some point you are specifically instructed not to reveal this to the Trustees or their advisers.
- The Trustees are advised by another actuary in your firm but there are very effective conflict controls in your firm
- Do you accept the brief?

Enhanced Transfer Values

- You accept the brief and a “successful” ETV exercise ensues – 25% of members transfer out on enhanced terms with access to personal advice from a reputable firm
- 6 months later the Scheme winds up with benefits secured in full
- Some years later members who transferred out start to retire on benefits well below the DB guarantee and complain they were misled.
- Where do you stand?

AssetProtect

- You are the actuary responsible for AssetProtect's models
- Your team has just identified a major modeling error
- This will require days of retesting and recalibration
- Correcting the error may well mean higher accrued liabilities and contribution rates
- Your team has agreed this has to be raised with the Chief Risk Officer [not an actuary] on AssetProtect's Main Board
- The CRO decides to use the existing modeling results, ignoring the potential impact of the error, on the grounds that the size of the error has not been identified accurately
- The CRO insists the modeling error is not disclosed to others
- The modeling results will shortly be disclosed to end-users.

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12

AssetProtect – based on Model Reliability lecture

- “Model Reliability” lecture given by Andrew Smith in May 2011, as part of a series of guest lectures for the Imperial Actuarial Finance MSc programme
 - How and why models fail
 - What we can do about it
 - Making models more reliable
- The AssetProtect case study is not based on any real situation, but arguably could easily be a real situation

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13

Further reading

- Actuaries' Code + an introduction by Sir Philip Mawer
<http://www.actuaries.org.uk/regulation/pages/actuaries-code>
- The “*Integrity*” article in the April 2010 e-edition of The Actuary
<http://www.the-actuary.org.uk/873808>
- FRC – Actuarial Quality Framework [June 2010]
<http://www.frc.org.uk/pob/actuaries/drivers.cfm>
- FRC – Regulatory Strategy: Strategic Outcomes 4 and 5 on pages 16 and 17 [April 2009]
<http://www.frc.org.uk/publications/pub1960.html>
- “Ethicability” – a very readable book by Roger Steare
- “Blind Spots” – by Bazerman and Tenbrunsel
- “Wilful Blindness” – by Margaret Hefernan [FT 2011 short list]

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14

Professionalism issues

What do we mean by integrity?

- Integrity is the sum of all those principles that guide the way we live and behave with others:
 - Prudence - wisdom, caution, good sense, mindfulness
 - Justice - fairness, impartiality, rights-and-duties
 - Fortitude - **courage**, guts, determination [fear/stubbornness]
 - Temperance - self-discipline, self-control, patience
 - Faith - **trust**, loyalty, commitment [betrayal/naivety]
 - Hope - cheerfulness, confidence, optimism
 - Love - honesty, openness, kindness
 - Excellence - doing our best, quality [mediocrity/perfectionism]
 - Respect - courtesy, respect, manners

[Source: Ethicability by Roger Steare]

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15

Professionalism issues

How do you solve dilemmas and do the right thing?

- Analyse the dilemma carefully – who's involved, what are the facts, what are the options, can you find a cunning plan?
- You need to ask the RIGHT questions
 - Rules – What are the rules?
 - Integrity – How do your principles guide you?
 - Good – Who would benefit and how?
 - Harm – Who could be harmed and how?
 - Truth – Are we being honest and accountable?
- Test your decision – does it build trust, will it stand the test of time, have you shown courage?

[Source: Ethicability by Roger Steare]

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16

Professionalism issues

What is meant by serving the public interest?

- As members of a chartered profession, actuaries have a core obligation to serve the public interest
- Principle 1.2: Members will respect confidentiality unless disclosure is permitted by law and justified in the public interest.
- Purpose of the Actuaries' Code:
 - To serve the public interest
 - To build and promote confidence [trust] in the work of actuaries and in the Actuarial Profession

My view: TWO SIDES OF THE SAME COIN

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17

Questions or comments?

Expressions of individual views by
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encouraged

The views expressed in this presentation
are those of the presenter

