



Institute
and Faculty
of Actuaries

No man – or woman – is an island (Speaking Up and Whistleblowing)

Patrick Cleary

18 March 2015

No man – or woman – is an island

Agenda

- **Introduction**
- Film 1 – “with all due respect”
- Speaking up and whistleblowing
- Film 2 – “burying bad news”
- Summary and questions



No man – or woman – is an island

Professional Skills CPD



- 2 hours annual requirement
- Working party
- Malcolm Slee (Chair)
- Patrick Cleary, Fiona Goddard, Malcolm Lee, Mairi McIntyre, Neil Hilary, Richard Winter, Doug Huggins, Jenni Stott

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Professional Skills CPD



- 2 hours annual requirement
- This session counts as 1 hour
- You must record a learning outcome in your CPD log
- IFoA is running “train the trainer” sessions for professional skills

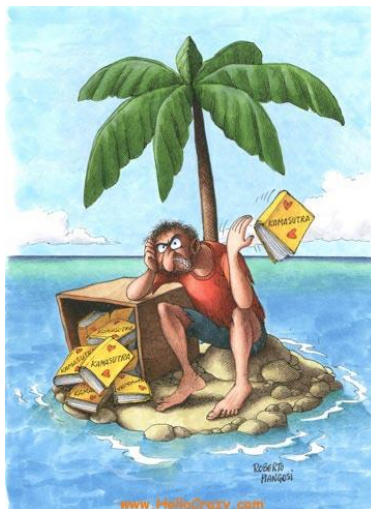
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No man – or woman – is an island

Actuaries are responsible for
their own actions

But they cannot ignore the
actions or inactions
of others



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No man – or woman – is an island

No man is an island entire of itself;
every man is a piece of the continent, a part of the main;
if a clod be washed away by the sea, Europe is the less

John Donne



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With all due respect

This is a tale of two actuaries. Frank works for B-Tex Insurance and Jane works for Elemental Insurance.

What would you do?



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With all due respect - discussion

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Speaking up and whistleblowing

- “speaking up” = “whistleblowing” in this session
- the Actuaries’ Code has quite a lot to say on this topic



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Speaking up and whistleblowing

- The Compliance principle of the Actuaries' Code says:
- Members will comply with all relevant legal, regulatory and professional requirements, take reasonable steps to ensure that they are not placed in a position where they are unable to comply, and will challenge non-compliance by others
- (Para 4.1) Members will speak up to their clients or to their employers, or both, if they believe, or have reasonable cause to believe, that a course of action is unlawful, unethical or improper

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Speaking up and whistleblowing

- The Compliance principle of the Actuaries' Code goes on:
- (Para 4.2) Members will fulfil any obligations to report information to relevant regulatory authorities.
- (Para 4.3) Where there is legal protection available, members will report behaviour that they have reasonable cause to believe is unlawful, unethical or improper, to regulators or other relevant authorities

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Speaking up and whistleblowing

- The Compliance principle of the Actuaries' Code goes on:
- (Para 4.4) Members will promptly report any matter for consideration under the IFoA Disciplinary Scheme which appears to constitute misconduct or a material breach of any relevant legal, regulatory or professional requirements including Actuarial Profession Standards and Technical Actuarial Standards issued by the Financial Reporting Council
- To the extent that the consent of a third party is required for this purpose in order to disclose information, members must take all reasonable steps to obtain such consent

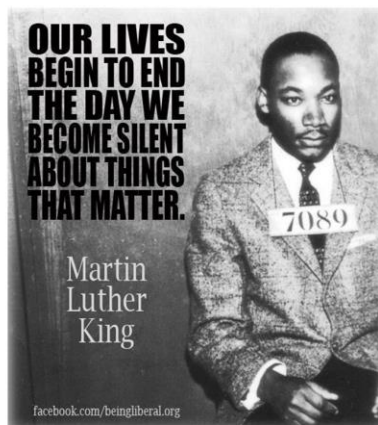
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Speaking up and whistleblowing

Why is it relevant to us?



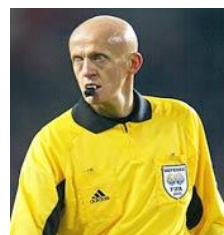
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Speaking up and whistleblowing

- Those are the requirements in the Actuaries' Code.
- So – why might it be hard to blow the whistle?



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Speaking up and whistleblowing

It might be hard to blow the whistle because:

- You are worried about how your boss or co-workers will react and treat you
- You think it looks like a long, difficult and lonely road
- You are worried about losing your job and not being able to get another one
- In the USA you might get a financial payout but in the UK you won't
- You think the legal support framework is not very supportive
- You have seen how badly whistleblowers appear to have been treated in other organisations

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"I'm sensing confidence, boldness, and moral sensibility. You're not going to turn out to be a whistleblower, are you?"

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Speaking up and whistleblowing

Support is available, for example

- Your firm's business ethics or whistleblowing policy
- Actuarial Professional Support Service
- Two whistleblowing guides from the profession
- Public Concern at Work
- FCA and PRA



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Burying bad news

- Ellie leads the team of actuaries responsible for the quarterly claims reserving process at Alto Insurance
- The reserves are set by a committee, chaired by the CFO Laura
- Laura urges Ellie not to be overly cautious in setting the reserves, including for the new “Goldshield” product



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Burying bad news - discussion

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No man – or woman – is an island

Summary

- Speaking up and whistleblowing
 - the Actuaries' Code has quite a lot to say about it
- There is support available

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" We better keep an eye on that guy. "

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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

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Back up material – film outline plots

The following slides contain the film outline plots in case of technology problems with showing the films

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“With all due respect” – Frank and Jane

- This is a tale of two actuaries. Frank works for B-Tex Insurance. Jane works for Elemental Insurance.
- At the year end, Frank certified the B-Tex technical provisions as being in accordance with generally accepted actuarial practice. Shortly afterwards Elemental launched a hostile takeover of B-Tex, advised by Jane. Jane reviewed the technical provisions that had been certified by Frank and was highly critical, believing them to be substantially understated. At meetings between representatives of the two firms, she criticised his work, both when Frank was present and when he was not. Jane made it clear that she considered Frank to have been unprofessional in certifying that level of provisions.
- Frank was not happy. He was upset by Jane’s actions and reported her to the profession for unprofessional behaviour in publicly criticising him, without first having discussed with him the grounds for her criticisms.
- **What do you think?**

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“Burying bad news” – Laura and Ellie

- Ellie is an actuary leading a team responsible for the quarterly claims reserving process for Alto Insurance. While this exercise is carried out regularly, there is particular focus on the Q3 process from management as that forms the basis of the year end results of the company, and only if there were an unexpected external event in Q4 (such as a big storm) would the reserves be changed for the year end.
- The reserves of the firm are formally agreed by a reserving committee, chaired by the CFO Laura.
- Laura has a meeting with Ellie to stress that the forthcoming year end is of critical importance. The company has been coming under pressure from the markets because for two years in a row the firm has “disappointed” the market by not delivering to its business plan, and in the latest rating agency meeting the analyst hinted that another poor set of results could lead to the firm being placed on a negative outlook or worse. Laura has promised the CEO that this will not happen.

(continued on next slide)

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“Burying bad news” – Laura and Ellie

- Laura explains that while of course Ellie must recommend reserves that she is happy with, everyone knows that by reputation actuaries are cautious in their outlook. In particular, Laura says that the Chief Underwriting Officer had been very unhappy with the mid-year results. The main new product launched in the last two years, Goldshield, was being reported as only being breakeven. While on launch it had been agreed that the initial results should be set to be reasonably conservative as it was untested, the product had been on the market for well over a year and the indications were that it was going to be very profitable.
- Ellie agrees to take these comments into account and Laura closes the meeting by saying that she will report to the CEO that they are on track to declare results in line with the plan.
- **How much should Ellie take the CFO's guidance into account in her work?**

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“Burying bad news” – Laura and Ellie

- It is now a couple of months later. The Q3 results were agreed by the reserving committee in line with the CFO's expectations, and while Ellie felt that this was slightly more optimistic than she would normally have chosen she decided that the difference was too small given the uncertainty to be worth making a fuss about.
- However, one of her team comes to her in early December, and explains that an error has been identified in their work, and that they hadn't been picking up the new product Goldshield properly. As it was a new product, and the computer system had not been fully implanted at launch, the actuarial team was using a manual work around their normal process. It was now realised that this had resulted in reported claims information being in GBP (£), but the premiums used to calculate loss ratios were in USD (\$). It was only that quarter that the first payments had been made, and the normal reconciliations had highlighted the difference, but it now appeared that the product was performing much worse than had been thought.
- **What should Ellie do?**

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“Burying bad news” – Laura and Ellie

- Ellie arranges a meeting with the CFO to explain what has happened and that the reserves will need to be changed for this class of business for Q4, as the error identified was material for that class of business, and that given Ellie had already been slightly uncomfortable with the level of reserves previously signed off, she now felt that an adjustment was necessary.
- Laura reacts extremely angrily to this suggestion:
 - If Ellie had been uncomfortable with the previous results then she should not have signed them off – it is too late to change her mind now.
 - In Laura’s view an error made by the actuarial team is not significant new external information, so doesn’t meet the agreed criteria for changing reserves at year end.
 - In their first meeting the objective had clearly been agreed that plan would be met. All that would have happened had this particular problem been identified earlier was that some different products where there was a bit of “fat” in the reserves would have been targeted and the same ultimate aim achieved, so the overall results of the company were still fine. (continued on next slide)

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“Burying bad news” – Laura and Ellie

- Laura carries, still angry:
 - Laura had also just had meeting with audit partner, who had indicated they were broadly comfortable with what they had seen so far, and so didn’t want to rock the boat. While she realised that this would need to be raised in the quarterly actuarial report, could it not be noted that there was a problem identified, but that more investigation time was needed to work out what to do and that this would be raised in detail with the reserving committee during Q1.
 - An actuarial report changing the agreed management reserves would be taken as a clear sign that Ellie could not be considered a “team player”.
 - Underwriting team are expecting the best year of bonuses for several years as targets have been hit, so changing things now without any obvious reason will make enemies of them in future.
- Laura closes the meeting by telling Ellie to go and find a simple solution to this simple problem, and that she expects the answer will be that the reserves can remain unchanged.
- **What should Ellie do now?**

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