 Institute and Faculty of Actuaries

Communicating to the Board in ethical grey areas

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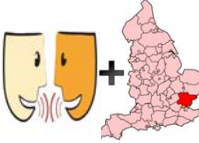
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Introduction

We deal with two key topics:

- Communications; and
- Ethics;

We also consider their connexion – how important it is to communicate your ideas clearly when asking people to make ethical decisions in grey areas.




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Communication – why do it?

You write a Board paper to get an idea as precisely as possible out of your mind and into the minds of the Board members.

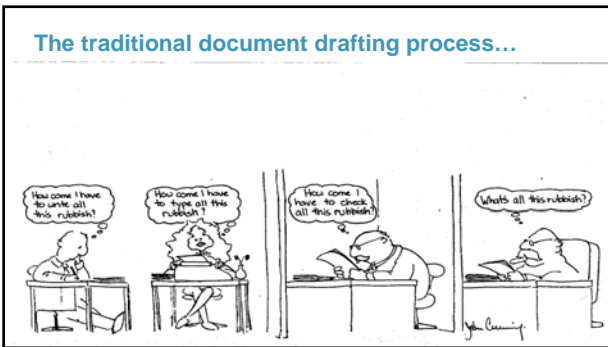
You want the Board to be **confident** that what **they** are **deciding** is the **right** thing to do.

Thus you should choose and arrange your words (and numbers and diagrams!) so as to achieve this most **economically**.



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The traditional document drafting process...



Communication – drafting principles

You should first form a **mental picture** of what you want to tell the Board and what you want them to decide.

Then ask yourself what words will convey that picture most efficiently. **Let the meaning choose the words – not the other way around.**



Communication – think first

Ask yourself the following six questions:

1. What am I trying to say?
2. What words will express it?
3. What image or idiom will make it clearer?
4. Is this image fresh enough to have an effect?
5. Could I put it more shortly?
6. Have I said anything that is avoidably ugly?



Communication – testing your document

Apply the following seven tests to your document:

1. Never use a metaphor, simile, or other figure of speech that you are used to seeing in print.
2. Use definite, specific, concrete language.
3. Never use a long word when a short word will do.
4. If it's possible to cut a word out, always cut it out.



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Communication – testing your document

5. Never use the passive where you can use the active.
6. Never use a foreign phrase, a scientific word, or a jargon word if you can think of an everyday English equivalent.
7. Break any of these rules rather than say anything outright barbarous.



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Communication – protecting yourself and the Board

Apart from checking compliance with Actuarial Standards, test that your document shows your:

- **Perspicacity**
- **Perspicuity**
- **Probity**
- **Prudence**



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Communication – argue your case at the Board meeting

Attend the Board meeting to argue your case.
Expect the Board to challenge your thinking.
Be prepared to challenge the Board's thinking.



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Ethics



- **Case Study 1 (capping exit charges on Pension With-Profits policies – who pays the cost?)**
- XYZ Insurance has a big block of Pension UWP policies with hefty early exit penalties. The regulator has now imposed a cap on exit charges after age 55, so XYZ's liabilities will increase. Who pays the cost: policyholders' asset shares; the WP fund estate; or the shareholders?
- The Actuarial Function Holder and the With-Profits Actuary have different views. The Board will have to decide, after taking into account the views of the two actuaries and the view of XYZ's With Profits Committee.
- How should the actuaries communicate their differing views to the Board?

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Case Study 1 (communication approaches)

- The squeamish approach: The actuaries can write long, vague, Sir Humphreyish memoranda with vast amounts of verbiage, hiding their thoughts from their audience (and themselves), and leaving the audience none the wiser, but still having to make the difficult decision.



Case Study 1 (communication approaches cont.)

- *The brutally honest, no holds-barred approach: The actuaries can co-ordinate their approaches, setting out in parallel:*
- *For each potential payer of the cost:*
 - *Whether they think that payer should bear the cost, and why;*
 - *What effect bearing the cost would have on that payer; and*
 - *How they recommend explaining to the payer that they think should bear the cost exactly why they should pay, and why nobody else should pay.*
- *Why their recommendation is consistent with all applicable laws and regulations, and customers' and shareholders' reasonable expectations;*
- *How they expect to justify to: the regulators; complaining policyholders or shareholders; and the media; why their recommendation is the right one.*



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Case Study 2 – “Lost in transmission”

- ❑ Stefan has done the piece of work. It wasn't easy but he's done it. He presents it to his boss, Georgina. A few changes are needed. Stefan is not 100% happy, but this is what bosses do, of course.
- ❑ Stefan does the revisions, Georgina smiles and the report goes in. That's all there is to it. Job done. But is that it? Should Stefan take steps to ensure understanding further up the management chain?
- ❑ Watch what happens when three actuaries, Stefan, Georgina and Viraj, in ascending order of management, play their parts in the preparation of a report for the Board.



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Case Study 2 – “Lost in transmission”

- Stefan – actuary
- Georgina – senior actuary
- Viraj – chief actuary
- Mel – project leader for “Cover Max”
- Jacqueline – sponsoring Board member



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Case Study 2 – “Lost in transmission”

Discussion



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Ethics (cont.)

Case Study 2 (“Lost in Transmission”)

The process outlined earlier should have applied all the way up the line, and should have started much earlier. Stefan should have clearly flagged his big uncertainty to Georgina as soon as he became aware it. Georgina should have immediately flagged it to Viraj, who should immediately have flagged it to Mel, Jacqueline, and the Board. Viraj should have given the Board an early view of the range of financial outcomes, to enable the Board to decide whether the risks were acceptable or whether work should stop until the actuaries fully understood the new reserving rules and what they meant. Everybody was too hands-off until it was too late.

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Questions

Comments

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