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Intro to Code of Professional Conduct

- Sets forth what it means for an actuary to act as a professional
- Identifies responsibilities actuaries have to the public, clients, employers, and the profession
- Purpose: to require Actuaries to adhere to the high standards of conduct, practice, and qualifications of the actuarial profession
  - Support the actuarial profession in fulfilling its responsibility to the public
  - Comply with the Code
  - Be subject to the profession's counseling and discipline procedures
- Adopted by the 5 US-based actuarial organizations



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## Professional Integrity – Precept 1



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## 1. Professional Integrity

### Act honestly, with integrity and competence

- to fulfill the profession's responsibility to the public
- uphold reputation of the actuarial profession
  - with skill and care
  - not violate or evade the Law or be detrimental to the reputation of the actuarial profession
  - not use a relationship to obtain illegal or materially improper treatment from one such party on behalf of the other party
  - not engage in dishonesty, fraud, deceit, or misrepresentation



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## Qualification standards – Precept 2



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## 2. Qualification Standards

### Perform Actuarial Services only when the Actuary is qualified to do so

- on basis of basic/continuing education and experience
- satisfies applicable qualification standards in **jurisdictions** in which the Actuary renders Actuarial Services



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## Standards of practice – Precept 3



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### 3. Standards of Practice

Ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice

- for the **jurisdictions** in which the Actuary renders Actuarial Services
- where **no guidance** exists use professional judgment, take into account other applicable standards
- if **departing materially** from an applicable standard then the Actuary must be prepared to justify the use of such procedures



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### Where's Carmen San Diego

- Carmen, FCAS, is trained in the US, working for a Bermuda company, located in Malta, and working on UK business. Carmen only belongs to the CAS.
- Carmen has asked you how many Codes of Conduct apply? How many jurisdictions' Standards of Practices apply?
- Carmen recently confessed to you that she "borrows" a friend's IFOA login and password (without her knowledge) to access confidential information available only to IFOA members. What would you do with this information?
- Carmen has recently been focusing on developing embedded insurance offering free travel insurance with the purchase of an airline flight. Carmen has aviation insurance expertise but has never worked with or bought travel insurance. What are your concerns?



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POLL

How many Codes of Professional Conduct apply?

1. One
2. Two
3. Three
4. Four



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POLL

How many jurisdictions' Standards of Practice apply?

1. One
2. Two
3. Three
4. Four



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POLL

Has Carmen materially violated Precept 1 by "borrowing" her friend's Standard & Poors login?

1. No. This happens all the time.
2. No, but she should have gotten permission from her friend to use the code?
3. Depends. It is a violation but to determine "materiality" you would need to know how much a subscription costs.
4. You have an obligation under Precept 13 to discuss the matter with Carmen and try to reach resolution.



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## POLL

## Is Carmen Qualified?

1. Yes. The CAS exams give her enough exposure to these kinds of coverages that she can consider herself qualified, even though she hasn't worked directly in this line of business
2. No, but she could read articles on the subject, talk to individuals with experience in the line, and accept the work.
3. No. Unless she has done work in this field, she is not qualified. She should decline the assignment.



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## Communication and Disclosure – Precepts 4, 5 and 6



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## 4. Communication and Disclosure

Shall take appropriate steps to ensure Actuarial Communications are clear and appropriate to circumstances and its intended audience, and satisfy appropriate standards of practice

- identifies the Actuary is responsible for it
- clarify the availability of additional supplementary information



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## 5. Communication and Disclosure –

Identify the Principal for whom the Communication is Issued and describe capacity in which actuary serves

- *Principal: A client or employer of the Actuary*



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## 6. Communication and Disclosure

Disclose all sources of direct & indirect material compensation that Actuary or their firm may or has received related to assignment

- disclose situations where lack of independence isn't clear
- firms with multiple locations must disclose sources of compensation for Actuarial Services for the subject Principal, regardless of location



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## Kent "Flounder" Dorfman

- Flounder, a fraternity buddy asks you for a favor. He's a risk manager at a small company with a captive insurance subsidiary. He's always been a shady character. You are loyal to your fraternity brothers and feel pressured to help. He wants you to do a quick review on his analysis and a short report with your findings. You see that there are no reported claims so far and you worry that he will use your analysis and your reputation to try to negotiate pricing of his insurance premiums for the upcoming year. He offers to return the favor by referring you for a paid Board position on the captive's Board.
- What are you required to disclose as per the Communications and Disclosure precepts from the CAS's Code of Professional Conduct regarding who is the Principal, your role, capacity, and compensation? What else should you consider?



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## POLL

## What would you do?

1. Frat buddy or not, Flounder was always a bit shady. Just decline the work.
2. Accept the work but clearly describe the limited scope and intended purpose. Specifically state that the work cannot be distributed to third parties. Decline the future paid Board position.
3. With appropriate disclosures on the limited scope of the analysis and with restrictions on distribution of the workproduct to third parties, accepting a Board position with the captive should not present a conflict.



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## Conflict of interest – Precept 7



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## 7. Conflict of Interest

**Don't perform actuarial services if you know there is an actual or potential conflict of interest, unless**

- you can be **unbiased**
- you have **disclosed**
- all such Principals who would be affected have expressly **agreed**



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## Control of Work Product – Precept 8



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### 8. Control of Work Product

Take reasonable steps to ensure your services are not used to mislead other parties.

Actuarial Communications may be used to influence the actions of a third party

- recognize the risks of misquotation, misinterpretation, or other misuse
- take **reasonable** steps to present Actuarial Communications clearly and fairly
- include **limitations** on distribution and utilization



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## Confidentiality – Precept 9



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## 9. Confidentiality

Don't disclose any Confidential Information to another party unless authorized to do so by the Principal or required to do so by Law

- **Confidential Information** is information that is not in the public domain that an Actuary has access to in the course of providing Actuarial Services to a Principal. It includes:
  - **proprietary** information
  - information that is **legally restricted** from circulation



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## Sebastian

- Sebastian, an FCAS, joined a Jamaican company 5 years ago, but the company results have been "Under the Sea" and it has since been placed under receivership. He was laid off and has a severance package based on the reserves estimates established by the receiver (or its representatives).
- Subsequently Sebastian is offered a consulting position with Triton Insurance Inc, the management company hired by the Jamaican regulator to manage the receivership of the company. He will be responsible for setting reserves.
- What are some of the issues that Sebastian should consider before accepting this contracting position? Consider elements including conflict of interests, his work product, and confidentiality.



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## Should Sebastian accept the consulting position?

POLL

1. Yes
2. No
3. Depends



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POLL

### Under what conditions might Sebastian accept the consulting position?

1. Inform all parties of the terms of the severance agreement. If they agree and Sebastian believes he can be objective, the perceived conflict of interest has been addressed.
2. Accept the position with Triton, but ask that he have a different role within the company (not establishing the reserves).
3. If Sebastian provided a recommendation on the reserves but management took responsibility for setting the reserves, there would be an objective perspective for severance purposes.



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### Courtesy and Cooperation – Precept 10



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### 10. Courtesy and Cooperation

#### Perform Actuarial Services with courtesy and professional respect and cooperate with others in the Principal's interest

- differences of opinion or observations should be discussed objectively and with courtesy and respect
- can provide service to a Principal even if Principal being served by another actuary in same manner
- nothing prevents you from expressing an alternative opinion if it is in the Principal's best interest; provide an explanation to support the alternative opinion
- if you believe another actuary has advised for the same matter, you may consult with actuary to
  - prepare adequately for the assignment and
  - make an informed judgment about acceptance of assignment



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## 10. Courtesy and Cooperation (con't)

### Perform Actuarial Services with courtesy and professional respect and cooperate with others in the Principal's interest

- if a new or additional actuary is permitted by Principal to consult with you related to Actuarial Services you provided
  - cooperate in furnishing relevant information, subject to receiving reasonable compensation for the work required to assemble and transmit pertinent data and documents
  - don't refuse to consult or cooperate with the other actuary because of unresolved compensation issues with the Principal unless such refusal is in accordance with a pre-existing agreement with the Principal
  - don't need to provide proprietary items



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## Crown-of-Thorn Consultants

- Your consulting firm, Green Peace, has had a fantastic relationship with the Barrier Reef Insurance Company for the past 20 years. Over this time you have become the leading actuary in the fishing industry and have developed proprietary pure premiums, pricing insights and benchmarks.
- The new CFO has indicated to you that he wants to give another consulting firm, Crown-of-Thorns Consultants, the chance to bid for the account the upcoming year.
- A Crown-of-Thorns actuary has contacted you and is asking detailed questions that makes you believe that they have a copy of your report.
- How helpful do you need to be?



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## What do you do?

POLL

1. Answer all questions and hope that your relationship and industry experience is enough to retain the relationship
2. Ask the new CFO to participate on calls between you and Crown-of-Thorns, and answer all questions
3. Provide only data and documentation that Barrier Reef provided you
4. Tell Crown-of-Thorns that you believe they have a copy of the report and suggest that they return it to you as your client has released your report without your permission



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## ADVERTISING & Titles and Designations – Precepts 11 and 12



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### 11. Advertising

Shall not engage in any advertising or solicitation that the Actuary knows are false or misleading

- in any mode of communication
- that promote a specific Actuary or firm over another
- where Actuarial Services may not be required



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### 12. Titles and Designations

Use membership titles and designations of a Recognized Actuarial Organization only be used in a manner that conforms to the practices authorized by that organization

- **Title:** any title conferred related to a specific position
- **Designation:** a specific reference to membership status



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### Sorry Charlie!

- Charlie, an ACAS, is a "sole" practitioner. He spends most of his time on data analytics projects for the seafood canning insurance industry
- He has been super busy and has not completed any actuarial continuing education for the last several years. He's been so busy that he hasn't even filed the required CE certification at the end of those years.
- He plans a significant marketing campaign this year and is targeting the largest company in the market, Star-Kist. In his marketing, he will use his ACAS designation.



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### Issues to Consider

- Does Charlie's use of the ACAS in his marketing campaign constitute false advertising? Why or why not?
- Does the USQS exemption for actuaries in positions that are non-actuarial in nature exempt Charlie from the continuing education requirement, since data analytics projects can be performed by non-actuaries? Why or why not?
- What types of roles was this exemption intended to address?
- If a potential client were to research Charlie's continuing education status on the CAS public database, what would it show? Why?



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Does Charlie's use of the ACAS designation constitute false advertising?

POLL

1. Yes
2. No
3. Depends



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## POLL

Should data analytics projects performed by an actuary be considered Actuarial Services?

1. Yes
2. No
3. Depends



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## Violations of the code of professional conduct – Precepts 13 and 14



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### 13. Violation

If you know of a material violation of the Code by another Actuary, you should consider discussing the situation with the other Actuary and attempt to resolve such violation

- unless it is prohibited by law or you are acting in an adversarial environment

If discussions are not successful, the Actuary should disclosure to the counseling and disciplinary body

- decide if it is trivial or material



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## 14. Correspondence

**An Actuary shall respond promptly, trustfully and fully to any request for information by the appropriate counseling and disciplinary body**

- responses should take Applicable Laws and Confidential Information into consideration



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## Newcomer

- Nemo is a member of the Clownfish due diligence team considering the acquisition of Coast Insurance Company. All members of the team have signed a confidentiality agreement in association with the due diligence.
- Coast has identified a senior management team for the transaction and has asked that all communications take place with that team. The Coast Chief Actuary is not one of the members of the transaction team.
- Nemo has received and reviewed the Coast actuarial report and notes that there has been adverse development associated with a long-term flood insurance policy. It appears that the company has adopted a pay as you go approach to these liabilities.
- Differences in the reserve and unearned premium estimates are material and Nemo's estimates suggest that Coast could even be insolvent.



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## What should Nemo do?

**POLL**

1. Nemo should communicate his findings to the Clownfish team and recommend that Clownfish walk away from the transaction. At a minimum, his findings need to be considered in the offering price
2. Nemo should work through his team to request that he gain permission to talk with the Chief Actuary to better understand his/her evaluation.
3. Nemo has a material unresolved difference with another actuary; his responsibility under Precept 13 is to file a complaint against the Coast actuary with ABCD.
4. While the confidentiality agreement typically would preclude an ABCD complaint, Nemo's responsibility to the public under Precept 1 requires that a complaint be filed with ABCD.



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