

Actuarial Association of Europe

Ethics

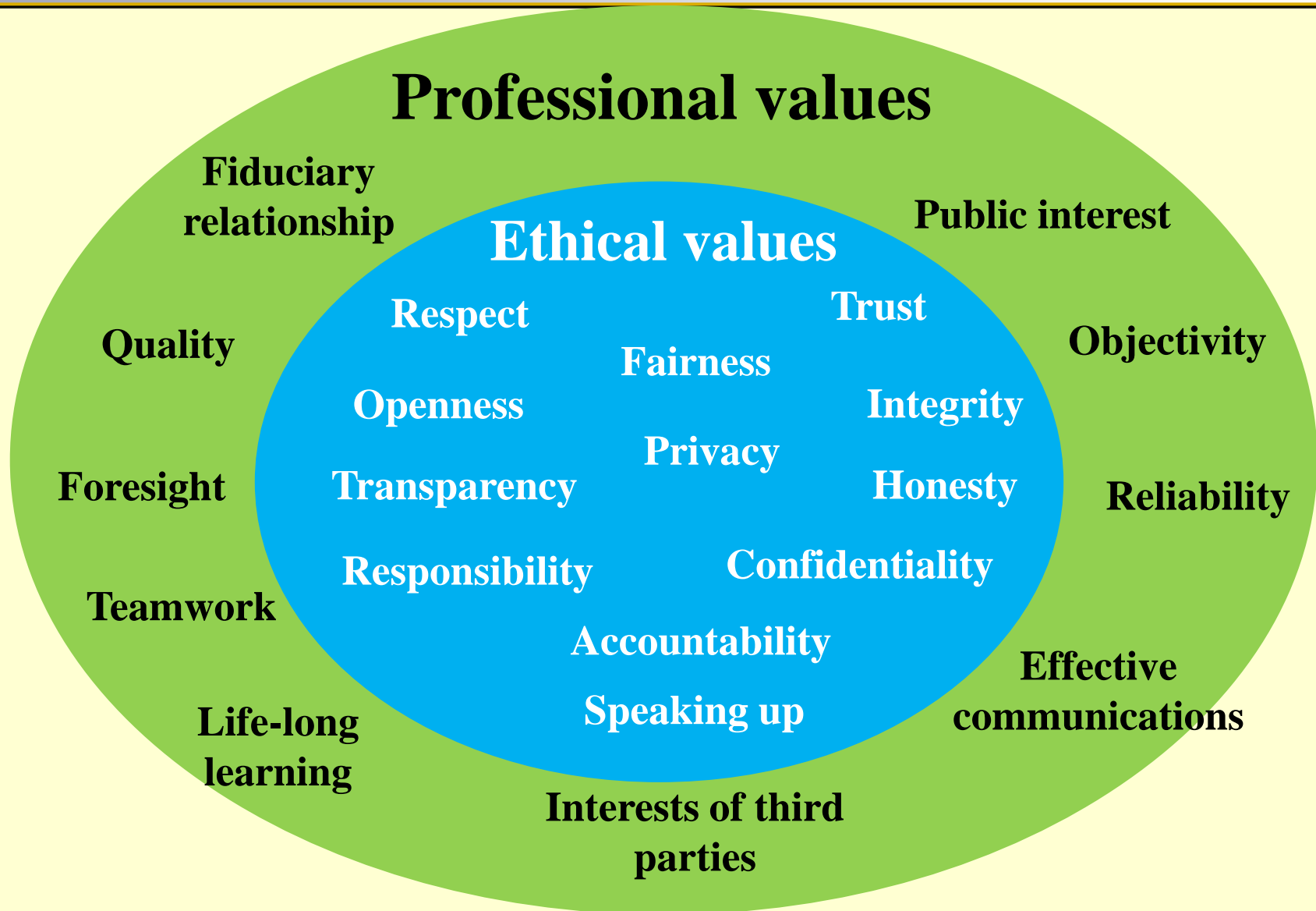
Chris Daykin

Brussels, 22 April 2016

- Highlight topical professionalism issues
- Importance of code of conduct
- New ethical challenges, e.g. data analytics
- Managing conflicts of interest
- The roles of actuaries under Solvency 2
- Development of professional standards

- Basis for IAA Code of Conduct requirement
- Member Associations implement into own codes
- New version (from Jan 2014) groups paragraphs under headings
 - Integrity
 - Competence and Care
 - Compliance
 - Impartiality
 - Effective communication

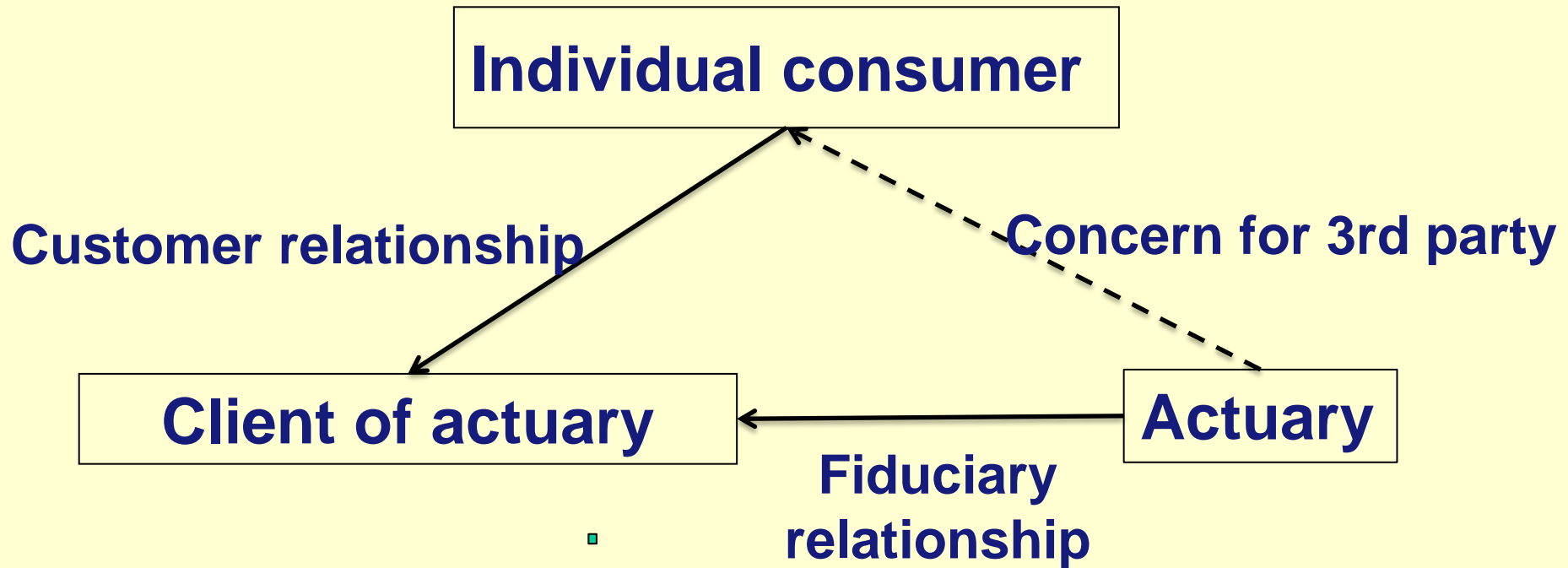
- Code of Conduct does not cover everything
 - actuaries should observe the spirit and not just the letter of the code
 - actuaries should act with proper regard for the public interest
 - actuaries should not bring the profession into disrepute
 - actuaries should be willing to challenge non-compliance
- an actuary shall not allow bias, conflict of interest or the undue influence of others to override professional judgement



- reliance on judgement, not just mathematics
 - fiduciary relationship
- having regard to wider factors
 - such as impact of advice on all stakeholders
 - concern for reputation of profession
 - concern for public interest
- doing a good professional job
 - quality
 - integrity
 - impartiality/objectivity
 - resilience under pressure
 - avoiding (or managing) conflicts

- What is the role of a professional in ethical business?
- Are we able to exercise control over business behaviour?
- Can we spot key ethical issues?
- Can we influence ethical business by our professionalism?
- Does our analytical focus risk us being ethically naïve?
- When should we speak up?

Normal fiduciary relationship

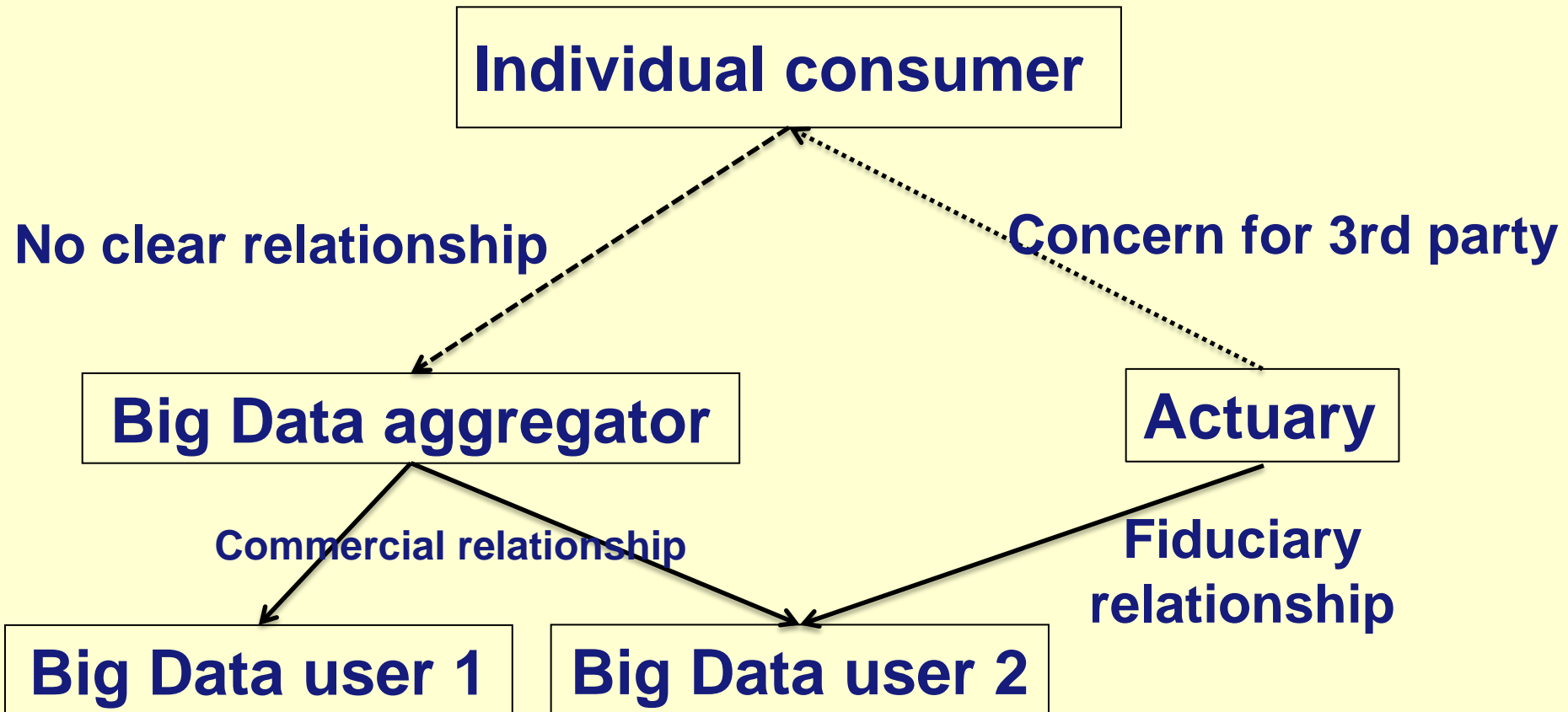


For the actuary

- fiduciary relationship
- objectivity
- integrity
- fairness
- effective communications
- interests of 3rd parties

For the principal

- fairness
- honesty
- trust
- transparency
- confidentiality
- respect



For the actuary

- fiduciary relationship
- objectivity
- quality
- reliability
- effective communications
- interests of 3rd parties

For the principal

- privacy
- confidentiality
- trust
- openness
- respect
- responsibility

- What are the key practical issues?
 - selling/combining of databases
 - collecting information
 - from internet usage
 - from data-mining
 - confidentiality of information collected and privacy issues
 - does the individual know how his/her data is to be used?
- What does data analytics user do with personal information?
 - statistical analysis?
 - targeted marketing?
 - to ‘help’ consumer or to ‘exploit’ consumer?

Some tentative conclusions

- Does the actuary owe a professional responsibility
 - to the individual consumer?
 - to the big data aggregator?
 - to the big data user?
- may need to rethink professional responsibility
 - to whom does the actuary owe some duty of care?
- integrate business ethics with professionalism
 - is professionalism adequately aligned with business ethics?
- actuary should not be afraid to raise ethical issues
 - and be ready to speak up

- actuarial function reporting responsibility
- opinions on underwriting policy and reinsurance adequacy
- relationship with risk management function
- is the fiduciary relationship with the Board of insurer?
- does actuarial function owe a professional responsibility
 - to policyholders?
 - to regulator?
 - to executive management?
 - to others within the insurer?
 - to other third parties?

The insurance business typically has many conflicts:

- shareholder v policyholder
- management v shareholder
- marketing v risk
- pricing v reserving

Actuary may have own conflicts:

- different hats (e.g. adviser/executive/board member)
- basis of remuneration
- desire for advancement
- interests of one department over another

- first stage is awareness of potential conflicts
- disclosing (and getting others to disclose) conflicts
- articulating conflict management approach
- taking steps to bolster independence

- how can the actuary contribute to good corporate governance?
- professionalism offers a firm basis for trust
- openness, transparency and accountability
- objectivity and ‘independence’
- standing firm under pressure
- evaluation of impact on all stakeholders
- taking into account the interests of policyholders
 - “treating the customer fairly”

- the Code of Conduct deals with broad ethical and behavioural issues...
- ...Standards of Practice are concerned with specific behaviours required of the actuary in relation to particular practice area applications, often in connection with statutory duties imposed on the actuary
- IAA strategy is to encourage members to adopt standards

- What are the implications of these developments for the AAE?
- IAA developing some model standards
- Is there a specifically EU context?
- AAE will develop some standards for Solvency II

The overriding purpose should be to serve the public interest by ensuring that the users of actuarial services benefit from a high quality of actuarial work.

The AAE is developing standards for actuarial roles under Solvency II

- ESAP1 – the AAE has adopted ISAP1
- ESAP2 – Actuarial Function Report
- ESAP3 – actuarial practice in relation to ORSA (Exp. Draft)

Under consideration

- ESAP4 – AF's contribution to risk management system
- ESAP5 – independent review by actuaries in Solvency II
- ESAP6 (or 1A) – governance of models (as per ISAP1A)
- ESAP7 – actuarial function reporting for IORPs
- ESAP8 – risk reporting for IORPs

- major challenge for the AAE
- ...and the member associations of the AAE
- ...both in 'traditional' and 'non-traditional' roles
- the role of the actuary looks set to expand and develop
- ...Solvency II is a trigger for this and an opportunity
- high quality standards should assist
- ...to provide support for claim of being a true profession
- ...to raise the credibility of the AAE and its members
- but the outcome will depend on individual actuaries
- ...the quality and professionalism of their work
- ...and their clear adherence to strong ethical principles

Actuarial Association of Europe

Ethics

Chris Daykin

Brussels, 22 April 2016