

Welcome to the new issue of *Seeing Beyond Risk*, the quarterly electronic publication from the Canadian Institute of Actuaries (CIA). Each issue presents the latest actuarial thinking from experts.

In this issue, André Lacroix, professor of applied, social, and economic ethics and the philosophy of law at the Université de Sherbrooke, examines the importance of ethics and professionalism in the actuarial profession. We are sure you will find this article informative and thought-provoking, and we encourage you to distribute it among your friends and colleagues.

Ethics and Professionalism among Actuaries

By André Lacroix

Actuaries, who employ their specialized knowledge of financial mathematics, statistics, and risk theory to solve specific problems faced by regulatory and financial services organizations, pension plans, insurance companies, and individuals, impact key aspects of everyone's lives. For them, ethical issues must necessarily be part of their daily concerns. A danger for these professionals lies in the difficulty of distinguishing ethical issues from technical problems, which are also their daily lot. But are technical and ethical issues separate or are both intrinsically linked?



Contrary to what most professionals believe, ethical and technical issues are fundamentally linked and it is wrong to claim that we do not need to reflect on ethical issues in our day-to-day work. That's why it's pointless to try to implement a "decision matrix" or operational control process without first identifying

the ethical issues. In this regard, before seeking to use the tools to resolve ethical issues, it is first necessary to be able to identify them. Inversely, it is necessary to be able to define what a professional act and professionalism are in order to distinguish them from the acts performed by financial technicians. Lastly, it is also important to be able to understand that ethics are at the core of any professional practice. How can ethics be used on a daily basis by actuaries who are tempted to focus solely on the numbers in the interest of objectivity?

Rules of Professional Conduct and Standards of Practice

The CIA's [Rules of Professional Conduct](#) identify the professional and ethical standards with which a member must comply and thereby serve the public interest. Annotations provide additional explanatory, educational, and advisory material to members of the actuarial profession on how to interpret and apply the rules.

It is the member's professional responsibility to be knowledgeable about, and to keep current with, the revisions to the rules and annotations. In addition to the rules, a member is subject to applicable laws and rules of professional conduct or ethical standards that have been promulgated by a recognized actuarial organization for the jurisdictions in which the member renders professional services. The member is responsible for securing translations of such laws or rules of conduct as may be necessary.

The [Actuarial Standards Board's Standards of Practice](#) consist of recommendations and other guidance on how actuaries, in all practice areas (pensions, life insurance, actuarial evidence, etc.) conduct their work. They are binding on Fellows, Associates, and Affiliates of the Canadian Institute of Actuaries for work in Canada and for members of bilateral organizations, as defined in the bylaws, when those members are practising in Canada.

ETHICS: MORE THAN JUST WISHFUL THINKING

In everyday vocabulary, ethics are commonly associated with moral principles and codes of conduct. Their purpose should be to help us distinguish right from wrong and to make correct decisions; in other words, to show us what we should do to meet the highest moral standards. If ethics were only that, we would have soon realized the impossibility of such a mission and have relegated ethics to the ethereal domain of “wishful thinking”, being the type of concept invoked to look good but seldom applied so as not to waste time, money, or efficiency on it!

Contrary to popular opinion, ethics are actually far more than a collection of best practices and good values rarely applicable day to day. Rather, ethics are used, and increasingly so, as a tool to reflect on values and standards to help us define, contextualize, interpret, and incorporate them in the various decisions professionals make. Ethics are a practice that involves reflecting on the values and standards that drive and frame our daily actions and decisions. Ethics are therefore anything but idealism or wishful thinking. They are at the forefront of the spectacle of life, where the situations we encounter constantly require us to rethink how we do things.

PROFESSIONALISM: GOING BEYOND TECHNICAL KNOWLEDGE

Similarly, the common perception of professionalism is often the application of technical knowledge in the public realm for the benefit of clients and citizens. For this reason, good professional practices would be those that meet objective criteria and comply with computational techniques. In the context of actuarial practice, for example, professional practices provide the best mathematical, financial, and statistical results related to risk calculation. But is that the only way to demonstrate professionalism?

Professionalism at the CIA

Six times each year, the CIA holds a Professionalism Workshop. This workshop, offered in English and French, provides an overview of professionalism issues and makes extensive use of the case study method. The workshop is a requirement to become an Associate of the CIA (ACIA) and for property and casualty candidates applying for membership in the CIA unless they have attended the Casualty Actuarial Society (CAS) Professionalism Course offered in Canada.

In addition, all CIA members are required to complete four hours of continuing professional development (CPD) related to professionalism every two years, as part of the 100 hours of CPD all members must complete during that time.

Discipline Process

The actuarial profession is recognized for its integrity, high standards of practice, and quality of work. One of the many reasons for this recognition is the CIA's rigorous discipline process, and constant review and enhancement.

CIA members are subject to the professional and ethical obligations as set out in the Institute's [Rules of Professional Conduct](#) and the Actuarial Standards Board's [Standards of Practice](#). Members failing to meet these obligations are subject to the Institute's disciplinary process as set out in its [Bylaws](#).

The Institute has a comprehensive complaints, investigation, and discipline process, overseen by the Institute's Committee on Professional Conduct.

The CIA website notes that actuaries are trained to communicate with and assist their clients to reduce the risks associated with retirement, sickness, and investments, among other things, situations that all of us are likely to encounter at one time or another. But assisting also involves considering the values of our clients, the standards in place to protect them, and the unique situation of each one. In other words, demonstrating professionalism means seeing beyond simply technical knowledge to establish an analysis or make a decision that reflects the values espoused by one's clients, regardless of whether or not we share those values.

ETHICS AND PROFESSIONALISM: AN ACTUARIAL REALITY

Ethics and professionalism are not pointless concepts associated with ideals more or less applicable to one's day-to-day reality. They are the reality in which actuaries must carry out their work. This is why ethics and professionalism need to be brought into play more readily by actuaries in order to reflect on their practices. More concretely, an



actuary who designs an insurance program for a group of professionals, for example, should take into account the values of those professionals when determining optimum coverage, not only in terms of risk management, but also in terms of the ethical issues specific to the group: the values of the profession, the values of the group of people working in that profession, etc. And actuaries must also reflect on their own professional practice to identify the values that guide their advice and the limit they should set for maximizing the profits sought by the company or clients requiring their

services. The Case of the Questionable Pension Valuation (see below) further illustrates the high standards and the rules that govern actuaries.

Ethics and professionalism are therefore not simply the “words of the day”. They contribute to the image of a professional group, they give meaning to their work, and they enable clients to benefit from measured, informed, and functional advice. Most importantly, they make it possible to disassociate the practice from the reflection and the commitment to society. 

The Case of the Questionable Pension Valuation

Scenario:

Mary Smith is a pension actuary asked to do a peer review report on a pension valuation done by Doug Jones, an actuary in the same firm. Doug has been the pension actuary for the company for a number of years. Mary does her peer review report and has no issues with the valuation. However, in reviewing the previous pension valuation, she discovers a significant error; if the error had been discovered it would have led to a much larger future contribution to the defined benefit pension plan. The error has been corrected in the most recent valuation, resulting in an increase in future contributions by the company.

Mary discusses the situation with Doug who says he became aware of the error shortly after completing and filing the previous valuation. He said that at that time the company was experiencing some financial issues and he decided not to notify the company. He added that it has been corrected this year. The company is doing better financially and can now more easily afford the higher contributions. So all is well, no harm, no foul, and he does not see any need to inform the company of the previous error. Doing so might also lead to a loss of the client and this would not be good for their firm. Doug tells Mary that her responsibility is to just verify the current valuation and not to worry about any past problems.



Issues:

Doug potentially violated the CIA’s rule of professional conduct #1 in that he did not act honestly in not informing the company of the error as soon as he became aware of it. He also should have taken appropriate action to correct the error and any resulting changes in future contribution rates.

Mary is concerned about a potential problem. She could have contacted someone in the CIA to get advice or maybe a senior person in her firm. If as a result she felt a rule had been violated, she then could go back to Doug and insist that he inform the company or she would file a complaint with the CIA’s Committee on Professional Conduct (CPC). Failure to do so would violate rule of professional conduct #13, which involves reporting apparent unresolved non-compliance to the CPC.



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He has published several articles, book chapters, and books. He conducts research on the epistemological and sociological foundations of ethics, and focuses on the mechanisms of ethical regulation in public space (public administration, administration of justice, and market regulation), as well as institutional mechanisms allowing the awareness of ethics in private and public deliberations (renewed approaches to democracy).