CARIBBEAN ACTUARIAL ASSOCIATION

Accredited as a Full Member of the International Actuarial Association

2016 Annual Conference

Connecting Minds: Sharing Knowledge and Impacting Societies

CAA 26th Annual Conference & 25th Anniversary Celebration

Torarica Hotel
Paramaribo, Suriname

30th November to 2nd December 2016

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Professionalism

Risk Culture

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CAS President Elect

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Rational statements that may cause you to rethink your motives:

1) Everybody does it
2) If it isn't illegal, it's ethical
3) I'm in compliance with the rules
4) No Harm, no Foul
5) It's for a good cause
6) If I don't do it, someone else will
7) The company owes me
8) It's not my fault
9) There are worse things

What does the CAS say about Ethics / Professionalism

- One of the purposes of the CAS is:
  - To promote and maintain high standards of conduct and competence for its members.

- Through
  - Code of Professional Conduct
    - Precepts 1 - 14
  - Actuarial Standards of Practices

Precept 1 – Professional Integrity

- An actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession.

"How many legs does a dog have if you call the tail a leg?

Four. Calling a tail a leg doesn't make it a leg."

-Abraham Lincoln

Precept 2 – Qualification Standards

- An actuary shall perform actuarial services only when the actuary is qualified to do so on the basis of basic and continuing education and experience and only when the actuary satisfies applicable qualification standards.

Question:

If you are a pricing actuary for property exposure, can you testify in a workers' compensation rate hearing?

Precept 4 & 5 – Communication and Disclosure

- An actuary who issues an actuarial communication shall take appropriate steps to ensure that the actuarial communication is clear and appropriate to the circumstances and its intended audience and satisfies applicable standards of practice.

- An actuary who issues an actuarial communication shall, as appropriate, identify the principal(s) for whom the actuarial communication is issued and describe the capacity in which the actuary serves.

Precept 4 & 5 – Communication and Disclosure

“The difference between the right word and the almost right word is the difference between lightning and lightning bug.”

-Mark Twain

“The word “good” has many meanings. For example, if a man were to shoot his grandmother at a range of five hundred yards, I should call him a good shot, but not necessarily a good man.”

-G.K. Chesterton

Precept 6 – Communication and Disclosure

- An actuary shall make appropriate and timely disclosure to a present or prospective principal of the sources of all direct and indirect material compensation that the actuary or the actuary's firm has received, or may receive, from another party in relation to an assignment for which the actuary has provided, or will provide, actuarial services for that principal. The disclosure of sources of material compensation that the actuary's firm has received, or may receive, is limited to those sources known to, or reasonably ascertainable by, the actuary.

Precept 7 – Conflict of Interest

- An actuary shall not knowingly perform actuarial services involving an actual or potential conflict of interest unless:

  a) the actuary's ability to act fairly is unimpaired;

  b) there has been disclosure of the conflict to all present and known prospective principals whose interests would be affected by the conflict; and

  c) all such principals have expressly agreed to the performance of the actuarial services by the actuary.

Precept 6 & 7 – Communication and Disclosure and Conflict of Interest

You and your spouse work for separate companies.

Your spouse is a broker and you are pricing the insurance coverage that your spouse will be offering to the client.

Precept 8 – Control of Work Product

- An actuary who performs actuarial services shall take reasonable steps to ensure that such services are not used to mislead other parties.

“Half a truth is often a great lie.”

-Benjamin Franklin

Precept 9 - Confidentiality

An actuary shall not disclose to another party any confidential information unless authorized to do so by the principal or required to do so by law.

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Precept 9 - Confidentiality

“In almost every profession - whether it's law or journalism, finance or medicine, or academia or running a small business - people rely on confidential communications to do their jobs. We count on the space of trust that confidentiality provides. When someone breaches that trust, we are all worse off for it.”

-Hillary Clinton

Precept 10 – Courtesy, Respect and Cooperation

- An actuary shall perform actuarial services with courtesy and professional respect and shall cooperate with others in the principal's interest.

"Honest disagreement is often a good sign of progress."

-Mahatma Ghandi

"To constitute a dispute there must be two parties. To understand it well, both parties and all the circumstances must be fully heard; and to accommodate the differences, temper and mutual forbearance are requisite."

-George Washington

SNAPPERS OVERVIEW

- Snappers = Real Life Predicament
- Structure of session
  - Read the case together.
  - Discuss opposing viewpoints
    - <u>Strict:</u> Follow the rules regardless of the situation.
    - <u>Practical:</u> Be practical in the application of rules.
  - See if there is a common ground.
- Disclaimers:
  - Exercise is for education purposes only.
  - Any opinion expressed by anyone does not represent the opinion of their employer or of the CAS.
  - No authoritative guidance should be expected of the moderator.

Close to the Edge

- You are the chief actuary (an FCAS) for a large commercial lines insurance company that writes mostly Work Comp and Med Mal. The market has been soft for several years, and thus your loss experience has been deteriorating, but you expect the market to harden soon. Due to the slow emergence pattern of the business, your reserve indications have a +/- 10% range. However, due to the reserve charge your company took the prior year, even a +5% deviation from the point estimate will dangerously deplete the company surplus.
- What is your best course of action?

Disagreement

Vinny has been hired by the Southern North Dakota Insurance Department to review the reserves of Bisom Insurance Company, a small company without much data. Vinny's estimates have a wide range. In addition, the company has changed its claim and reserving practices recently, further adding to the uncertainty. As part of the project, he reviews the work of Sally, the appointed actuary. Vinny finds her estimates to be between optimistic and unreasonably low, yet she had issued a clean reserve opinion. Vinny's best estimate would cause the company to be insolvent.

What should he do?

Implementing GLM Approach

- You are an actuary at an insurance company. You have been working on a personal auto rating plan, using traditional actuarial methods, and you have preliminary results. An actuarial student who works for you shows you the results of a GLM approach that she has been investigating on her own time. The GLM results differ significantly from the preliminary results obtained using traditional methods. Your initial belief is that the GLM approach may be more accurate, but you are not very familiar with GLMs and thus cannot fully compare the two approaches.
- Are you required to spend time exploring the GLM option, even if it means missing an internal filing goal?

New Product

- You have been the VP of underwriting for the large accounts market for the past three years, and before that you were in an actuarial role. The actuary supporting your market, along with the marketing department, have developed a new product with forms, rates, and a 5-year projection of the expected results of this new product. You have reviewed the work and you believe there are some flaws in the pricing and financial modeling. Instead of generating a profit in year 1, the new product will not generate a profit until year 5, if at all.

- What do you do?

New Product

- Option 1 – Have a conversation with the actuary and discuss your concerns, ultimately leaving the ball in his/her court
- Option 2 – Bring the entire work team together and delay roll-out of new product indefinitely until problems are solved
- Option 3 – Ignore problem

New Discount

- Your marketing department is pushing for a new business discount on a particular product in order to boost growth. From a purely actuarial perspective, there is no support for this discount. Your main competitor does not have this discount either.

- What would you do?

Faulty Rating Plan

- You are an actuarial manager and are attempting to gain approval for a new rating plan, but are having difficulty. You come across a competitor’s filing that implements a similar rating plan and was approved, but you believe the rating plan uses faulty logic. Your boss, who is not an actuary, says “If the logic works, then use it” and orders you to do so.
- What do you do?

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