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Ethical Decision-Making for Actuaries – Part 1

by Frank Grossman

1. SEEING IS BELIEVING

Have you ever heard someone say, "I don't know anything about art … but I know what I like"? It's the right side of their brain talking. That we each have our own innate preferences is hardly earth-shattering news. But this has an important corollary: not everyone sees things exactly the same way you do!

Given this diversity of human experience, perhaps one's esthetic sense provides a useful analogue for one's ethical sensibility. The subjective nature of what we see—that is, what we think we see—was neatly described a century ago by Edgar Degas:

> One sees as one wishes to see, and it is that falsity that constitutes art.

Additional insights about human perception may be drawn from Degas' fundamental observation. First, regarding our self-image, we see ourselves as we wish to see ourselves. And second, we tend not to see what we don't wish to see. Both of these "falsities" stem from the perennial risk of self-deception ever-present in the human condition, and they underlie the study of ethics.

2. LIVING IN BLACK AND WHITE

A frequently encountered, and yet fundamental, question is how does an "ethical decision" compare to a "moral decision"? How are they similar? And, indeed, what makes them different?

Moral decision-making relies on the existence of moral principles or rules. A brief visit to a dictionary will confirm that moral principles are concerned with a) goodness or badness of character or disposition, or b) the distinction between right and wrong. Decision-making on a moral basis requires virtues or values defined in absolute or black and white terms. And, for many people (including actuaries), this presupposes the existence of a moral authority which has unambiguously defined those rules.

Steven Pinker has written engagingly on language and cognition, including our moral sense and the effect of "moralization" associated with a black and white worldview. Moralization is a judgmental mindset, and it has a couple of defining qualities. First, the rules it invokes are felt to be universal. Second, people feel that those who break moral rules, and thereby commit immoral acts, deserve to be punished. Hence, it's okay to inflict pain on a person who has broken a moral rule, and it's morally wrong to let transgressors escape unpunished.

The curious thing about adopting a black and white mindset is that it can take one to surprising places. Whether something is considered a question of sin and virtue or simply a matter of personal choice can change over time. Morals are mutable! So much so, that some issues our grandparents thought were clear-cut are contentious moral terrain today—and vice versa!

For example, in days past, some people didn't smoke. That was their personal preference and their right—and in retrospect, a prudent choice given the deleterious effect of tobacco. And for those who chose to smoke, their decision was similarly based on their right to do so. Smokers and non-smokers coexisted, breathing the same air, in relative peace.

As the harmful effects of secondhand smoke became more widely understood, smoking evolved beyond something that was merely socially undesirable but tolerated, and came to be seen as a potentially lethal threat to the health of non-smokers. Exposing unborn and young children to secondhand smoke became damning evidence of parental dereliction. And not acting to remove this threat constitutes an immoral act in the eyes of some today. (Have I overstated my case? Well, how do you react when you see an expectant mother lighting a cigarette?) Indeed, smokers today are increasingly ostracized, and smoking is prohibited in many public places and worksites. The days of print and television advertising that prominently displayed pictures of people enjoying a "good smoke" are long gone.

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Frank Grossman, FSA, FCIA, MAAA, is a senior actuary at Transamerica Life Insurance Company who is mindful of Abraham Lincoln's observation: "Moral principle is a looser bond than pecuniary interest." He can be reached at frank.grossman@transamerica.com or 319.355.3963.

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Alternatively, Pinker notes that some human behaviors have been "amoralized", or transformed from being seen as moral failings to merely "lifestyle choices." Afflictions that centuries ago were thought to be "payback" for bad moral choices have been rebranded as "unfortunate consequences" today. For example, syphilis was once viewed as the consequence of a dissolute life, and sometimes even referred to as the "wages of sin". Yet syphilis has since evolved from an apparent moral judgment to a "sexually transmitted disease" (STD), and is now described clinically as a "sexually transmitted *infection*."

According to Steven Pinker, whether a certain behavior "flips" our mental switches to create a state of moral judgment isn't simply a function of how much harm it does. Much more frequently, people align their black and white judgments with their own self-view and preferences. This is not so much moral reasoning as moral rationalization. What this suggests is that actuaries making decisions on the basis of self-professed absolute truths risk being undercut by their own cognitive biases. It may be better to embrace the ambiguity of contemporary actuarial practice, and not attempt to resolve it in strict black and white terms. Welcome to the "gray-zone."

3. THE ETHICAL PLANE

How might we move forward regarding ethical decision-making in the absence of absolutes? A construct with three elements may be helpful. First, there exists an ethical plane, a landscape of diverse outcomes in relative position to each other, over which we live and work. Some outcomes on the ethical plane are "better" than others (i.e. the light gray ones), and some outcomes are definitely worse than others (i.e. the dark gray ones). Sometimes the topography obscures our field of vision, and it's even possible to become disoriented and lose one's way amid the pervasive gray of the ethical plane.

Second, we are capable of overt action as social agents on the ethical plane. Actuaries can influence outcomes, and even influence others who, in turn, can act and influence outcomes. This means that we are, at least in part, responsible for where we are situated on the ethical plane, and hence the decisions that affect our location on the plane. One gravitates toward better outcomes by demonstrating technical proficiency, exercising sound judgment, and placing one's client's interest before one's own interest.

And third, our individual assessment of outcomes on the ethical plane is completely subjective. We each tend to see things differently, and need to appreciate that other people may not see things exactly the way we do. A subjective outlook makes it harder to see clearly, to navigate successfully, and to collaborate ethically with others on the plane.

Notwithstanding the widespread public perception that actuaries can predict the future, our work is largely not about being "exactly right". In fact, given our focus on probabilistic estimates and present values, not being materially wrong is often a good outcome on the ethical plane. In this respect, actuarial practice is similar to playing horseshoes or lobbing a hand grenade: "close" may well be good enough.

4. AIDS TO NAVIGATION

Aside from moral law and its strictures, what can we rely on to guide us toward better outcomes on the ethical plane? Public rules—common law, statutes, regulations, corporate policies, and actuarial standards—certainly provide essential guidance and support for ethical decision-making. Yet, these rules, if not clearly communicated and embraced, require interpretation and can be subject to misinterpretation, or even gamed by those seeking security in so-called "safe harbors".

Personal standards provide another basis with which to evaluate decisions and outcomes. For example, the "Bathroom Mirror Test" is the challenge of being able to look at oneself in the bathroom mirror each morning and recognize the unvarnished actuary therein. The advent of the 24/7 news cycle has transformed the threat of adverse publicity and approbation underlying the "How Would This

Decision/Outcome Look on the Front Page of the Newspaper Test". And then there is the ultimate ethical standard: "How Would I Ever Tell Mom?"

Dov Seidman, the founder and CEO of LRN, a firm which helps companies develop more ethical cultures, has summarized the importance of values when making decisions.

> Laws and regulations tell you what you can do, but values tell you what you *should* do. There is a difference between doing that which you have a right to do and doing what is right to do.

In a similar vein, Claude Lamoureux, a prominent Canadian actuary, periodically recounts the "Ed Lew Rule" that he first heard as a newly-minted actuary some 40 years ago. Ed Lew was our 1973-74 SOA president, and when making a commencement speech to a cohort of new actuaries he said:

> When you have to make a decision, always make the choice that will let you sleep better, not the one that will let you eat better.

According to Claude Lamoureux, the appeal of this simple rule is that it is both profound and at the same time easy to understand—good reasons not to let the remembrance of its basic insight fade from our collective actuarial memory.

5. PHILIPPA FOOT'S ARMCHAIR PUZZLE

Perhaps the best known thought experiment or armchair puzzle used to test how people respond to ethical conundrums is the Trolley Problem. First articulated by Philippa Foot in the 1960's, the Trolley Problem exists in many forms and variants. Here's the basic dilemma:

> You see a trolley car hurtling down the track, with its conductor slumped over the controls. In the path of the trolley are five men working on the track and oblivious to the danger. You can pull a lever that will divert the trolley onto a spur, saving the five men. Unfortunately, the trolley would then run over a single worker who is working on the spur. Is it permissible to throw the switch, killing one man to save five?"

During a session at the 2011 SOA Health Meeting, an overwhelming majority said yes:

Table 1: The Trolley Problem
Is it permissible to throw the switch, killing one man to save five?

Yes	No	?	Total
79	21	8	108
73.1%	19.4%	7.4%	100.0%

One of the many follow-on variants to the Trolley Problem was the Footbridge Problem developed by Judith Jarvis Thomson:

> You are now on a footbridge overlooking the tracks and have spotted the runaway trolley bearing down on the five workers. Now the only way to stop the trolley is to throw a heavy object in its path. And the only heavy object within reach is a fat man standing next to you. Should you throw the fat man off the bridge?

An overwhelming proportion of the session attendees said no:

Table 2: The Footbridge Problem
Should you throw the fat man off the bridge?

Yes	No	?	Total
15	83	4	102
14.7%	81.3%	3.9%	100.0%

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"When you have to make a decision, always make the choice that will let you sleep better, not the one that will let you eat better."

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Though both dilemmas presented an opportunity to sacrifice one life to save five, support for taking overt action varied dramatically. (It may be worth noting that the Health Meeting results are in-line with responses to the problems generally.) The utilitarian principle of "the greatest good for the greatest number" suggests that it's okay to both throw the switch, and the fat man off the bridge, to achieve a similar, beneficial outcome. The arithmetic is the same in each case. Yet, four out of five said they would throw the switch, while one in six said they would throw the fat man off the bridge. Why is that?

Armchair philosophers have gone round and round with these puzzles and failed to arrive at a clear answer. Such is the ambiguity of the ethical plane. One theory proposed by cognitive scientist Jonathan Cohen is that it is humankind's revulsion at the prospect of physically manhandling an innocent person that translates into less support for taking action in the Footbridge Problem. Cold-eyed cost-benefit analysis is trumped by our basic human sensibility, or so it would seem.

6. NOT SO SIMPLE ARITHMETIC

Straightforward application of the utilitarian principle would seem to offer a sound basis for making ethical decisions. Yet, this isn't always the case as illustrated in the preceding section. On reflection, the several risks of cost-benefit analysis should be readily apparent to most actuaries:

- under/overstatement of the costs/benefits of the various outcomes;
- under/overstatement of the likelihoods of the various outcomes; and
- failure to take all relevant factors into account.

Factors not properly taken into account may include not only exogenous inputs to our models, but also factors that were not considered at all. It's not the cost-benefit analysis' arithmetic that's suspect, but rather our ability to identify and assess outcomes with equanimity.

There is, however, another decision-making approach—a particularly important one for actuaries.

During the latter half of the 18th century, Immanuel Kant espoused a basis for decision-making in sharp contrast to "the greatest good for the greatest number" approach. Kant thought that individual action should be evaluated based on its adherence to one's societal rights and duties. Most everyone has "rights" today, and much energy is expended defending and extending individual rights. So, it's that last little bit about "duties" that runs counter to much of our contemporary culture.

Kant thought that our duty could not be divorced from our right. He also understood that we can never be entirely certain that we are acting from our sense of duty alone, since our true motives can be complex and are often veiled from us. Kant concluded that, notwithstanding the risk of self-deception, we ought to set ourselves to act in accordance with our duty to others. The concept of a professional's obligation to others ought to have some resonance with actuaries. Our Code of Professional Conduct's first precept says as much.

> 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.

So, if Immanuel Kant were up on a bridge confronted by the Footbridge Problem, what would he do? Simply throwing the fat man off the bridge would be unthinkable—it would be murder! In such a situation, a familiar phrase comes to mind: "the ends don't justify the means" … or do they?

In the world of sports, for example, there is a saying frequently attributed to Vince Lombardi that calls for a "win at all costs" attitude:

> Winning isn't everything. It's the only thing!

Dietrich Bonhoeffer, a theologian from the first part of the last century, offered another perspective on a win at all costs world-view, and the potency of success.

> In a world where success is the measure and justification of all things … (t)he world will allow itself to be subdued only by success. It is not ideas or opinions which decide, but deeds. Success alone justifies wrongs done. … With a frankness and off-handedness which no other earthly power could permit itself, history appeals in its own cause to the dictum that the end justifies the means.

So, what about those pesky means? Have you ever seen them in action, actuarially-speaking? Short-cuts, quick fixes, and abbreviated methods are all assuredly means to a desirable end. Maybe even a greater good, namely the delivery of the "right" answer, using existing models and data, and not a minute too soon. Yet, pity the poor fat man on the footbridge—as the trolley hurtles down the track—hoping, beyond hope, that the person beside him on the bridge is *not* an actuary with a utilitarian mindset.

Editor's Note: Watch for the conclusion of "Ethical Decision Making for Actuaries" in our November issue of The Stepping Stone.

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