



SOCIETY OF ACTUARIES

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The Actuarial Ethicist: Purloined Pages

by Frank Grossman

This short article sets out a hypothetical workplace dilemma. We invite readers to submit comments and suggested solutions which will be summarized and published in the following issue of The Stepping Stone. All submissions will be received in confidence, and any identifying details removed prior to their inclusion in the discussion of the case.

Dave the ASA stopped by Erin the FSA's office and asked her to accompany him to a meeting with Vincent, one of their firm's asset portfolio managers. Dave is Erin's manager and the CFO for their company's interest-sensitive product division. Erin is the valuation actuary for a couple of interest-sensitive product lines. On the way, Dave explained: (i) the statement of investment strategy for one of Erin's product lines prescribes a duration matching approach to managing interest rate risk, and (ii) the liability duration provided to the investment unit was stale, predating the appointment of both Dave and Erin to their current roles three years ago.

This was the first time Dave and Erin met with Vincent, and their meeting was cordial. Dave and Erin learned that the duration for the product line's asset portfolio was produced by a third party software package. Erin asked for more information about the assumptions underlying the asset duration calculation, and the meeting ran long as a technical discussion ensued. At length, Erin was able to confirm that the interest rate scenario generator

used to calculate the asset duration was roughly consistent with the generator used for her valuation work. She also described how sensitive the liability duration was to her dynamic lapse rate assumption, which seemed to be news to Vincent.

Erin prepared a written report summarizing her liability duration calculations for the follow-up meeting with Vincent a couple of weeks later, including an appendix noting her policyholder behavior sensitivity test results. While waiting for Vincent to arrive, Dave quickly read Erin's report, asked for all three copies and removed the appendix from each report before returning them to Erin. Just as Vincent entered the room, Dave said "Let's try to finish today's meeting on time, okay?"

What should Erin do?

Send your suggestions before August 22, 2011, to Craigmore54@aol.com. The discussion of Erin's dilemma will be published in the November 2011 issue of The Stepping Stone.

Frank Grossman, FSA, FCIA, is a senior actuary at AEGON USA who, when working under the shadow of a newsletter deadline, recalls Pascal's wise words: "The last thing one knows in constructing a work is what to put first." He can be reached at fgrossman@aegonusa.com or 319.355.3963.

