



SOCIETY OF ACTUARIES

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BOOK REVIEW:

Everybody Cheats, at Least Just a Little Bit A Review of *The (Honest) Truth About Dishonesty*, by Dan Ariely¹

Review by Mary Pat Campbell

In Dan Ariely's look at lying, cheating, fudging and shaving the truth, there's bad news and there's good news. The bad news, which is not too much of a surprise, is that almost all people will cheat, lie and steal just a wee bit if the conditions allow. Whether it's giving ourselves a mulligan on the golf course or taking a few supplies from the office for personal use, usually it's just a little here or there.... Doesn't matter much, does it?

But of course the impact of all these little lies can add up, from underpayment of taxes, over-claiming from insurance, downward spirals of unethical business practices leading up to complete disaster—many of the worst systemic problems don't come from outright criminality and massive fraud, but a process that starts with laxity at the edges. At the very least, many a diet has been ruined by “just one cookie” after a stressful day that ends up in a full-blown Oreo binge.

I did say there was good news—very few people cheat and lie optimally. What I mean by this is what Ariely calls the “Simple Model of Rational Crime”: people will lie, cheat and steal to the extent they can get away with it if the expected payoff is high enough. But that happens not to be the case in reality.

To be sure, when oversight and controls are laxer, people do take advantage of the situation by stealing and cheating just a little bit. But the point is that this is “at the margin” as opposed to making out like bandits. Ariely looks at how this “margin” can move depending on a variety of circumstances: whether you're in a culture of widespread dishonesty (consider surveys of how widespread tax cheats are in different countries), if you've been emotionally depleted (too many stresses can sap the willpower until the dam finally breaks... cf. the cookie binge above), if one is reminded of the obligation to be honest before, rather than after, one has to answer a bunch of questions.

Let me approach that final example, as Ariely uses an experimental example straight from the world of



insurance. Like many forms (especially tax), one generally fills out an insurance application, and then, at the end, signs a statement attesting that all the information above is truthful. Ariely wanted to check the effect of having people sign such a statement *before* filling out an auto insurance application. Specifically, he looked at the part of the self-reporting miles driven per year (as more miles driven results in higher premiums, usually). The result? Those with the form with the attestation at the top reported, on average, 2400 fewer miles driven than those who had the attestation in the standard place: the bottom. This was about a 9 percent reduction, which reflects the marginal aspect of “normal” cheating. Read the book to find out what the insurance company did with these results. You will likely not be surprised.

Given that our own profession emphasizes ethics so much, learning the parameters under which unethical practice flourishes is important for us. While learning about how so many people will cheat, at least just a little bit, does get to be a bit disheartening, it does point out the importance of our Actuarial Code of Conduct as well as the numerous controls in our work. ●



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END NOTES

¹ Harper Collins, hardcover, 285 pages.