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**WORKING ABROAD: ARE THERE  
DIFFERENCES IN CODES OF PROFESSIONAL  
CONDUCT AND STANDARDS OF PRACTICE?**

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*As North American companies move into international markets, actuaries are more involved in operations abroad, often joining other countries' actuarial organizations. This session will discuss the codes of professional conduct and standards of practice in various other countries.*

MR. CHARLES BARRY H. WATSON: We're going to begin with a presentation by Lauren Bloom who is the legal counsel for the AAA. She will discuss the ramifications of the code of conduct, the standards of practice, and the qualification standards as they relate to people working in foreign countries that have different structures (i.e., is there an existing actuarial organization with a well-defined code of conduct, is there an actuarial organization with an ill- or an un-defined code of conduct, or is there no actuarial organization at all and no code of conduct to worry about?). We're then going to talk to someone who's actually been exposed to one of these situations, Ralph Kopp, who has had the privilege, and I mean that sincerely, of working in Bulgaria, which is a country that falls under the last category. Although Bulgaria, has an insurance industry, it has no particular actuarial organization and certainly no code of conduct for actuaries. Finally, I'm going to make a few remarks on implications, particularly from my perspective, for consultants who have been working in countries where there are a variety of situations. I've had about 25 years of experience doing this, and I'll make a few observations.

The first speaker, Lauren Bloom, the general counsel of the AAA, took over that position at the beginning of 1992. Before that, she spent some years as a trial lawyer, was an attorney with the justice department, and spent four-and-a-half years in private practice. She has a bachelor's degree in English from Yale, which is why she can write extremely well, and she received a J.D. from the Columbus School of Law. She was the valedictorian of her class. She has a Master of Law in labor law from Georgetown University. Lauren has had considerable experience in dealing with the questions of professional code of conduct and ethics.

Ralph is presently a self-employed consultant with the High Plains Actuarial Services in Rapid City, SD. He is a member of the AAA and a Fellow of the Society of Actuaries. He has had experience working for a number of insurance companies, and, as I noted, he has had the recent opportunity of spending two tours of service in Bulgaria working for a Bulgarian insurance company, so he has definitely obtained education in differing codes of professional conduct in the best school—personal experience.

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How many people in the audience have worked overseas, outside the U.S. and Canada, professionally? How many people are planning or are contemplating working overseas? Other words, most of the audience has either worked overseas or plans to work overseas. Well, that's excellent because it means we have practical experience and we have a need to know.

MS. LAUREN M. BLOOM: My task is to help lay out the framework of issues that you need to consider when you're in the process of putting together an international professional practice. An actuary who practices in the U.S. and is a member of one of the five U.S. organizations representing actuaries, is governed in his or her professional conduct by the code of professional conduct which in turn incorporates, by reference, the standards of practice and the qualification standards of the Committee on Qualifications of the AAA. That's true for all U.S. actuaries practicing in the U.S., and of course, that's the system with which I, as the Academy's general counsel, am most familiar. But when you move outside of the U.S., the rules can change, the laws certainly do, and the professional obligations that you must meet can be altered. In fact, legal, professional, cultural, company, and individual ethical constraints all need to be considered and harmonized in your everyday dealings. My goal is to make it easier for you to understand the different kinds of constraints that you'll face so that you will recognize what your obligations will be as you embark in international practice.

Now as a preliminary matter, let me make just a couple of points. First, I am an attorney and I'm licensed to practice in some jurisdictions here in the U.S. My knowledge does not extend much beyond the boundaries of the jurisdictions in which I'm admitted to practice. I don't pretend to be expert in the laws of all the countries in the world; I don't even pretend to be expert in the laws of all 50 of the United States, so please don't take my comments as a substitute for individual legal advice. Second, the opinions I'm about to express are mine. I am not here as a representative of the Academy or any of its committees, and I don't purport to speak on anyone else's behalf. So if you've heard someone else disagree with me, there are probably very good reasons for that. And finally, just for the sake of convenience, my remarks will concentrate primarily on U.S. actuaries who are interested in practicing in other countries. This is meant not to exclude Canadians or other Society members who want to practice internationally, but simply to streamline my remarks by focusing on the group of actuaries with which I have the most familiarity.

So with that, let's talk about the kinds of constraints that will govern your practice wherever you go in the world. The most obvious kind are legal constraints. Any professional who seeks to practice in any country has to consider the laws of that country because typically, applicable law is going to take precedence over professional standards. This is the case with the U.S. code of professional conduct, which makes clear that where there's a conflict, dominant law prevails. Similarly, what that means is that every actuary ought to be familiar with the applicable laws and regulations of the particular country in which the actuary wishes to work, and it's wise to recognize that laws vary considerably between countries because they reflect the value and the ethics of each nation's particular culture.

The laws that will govern your work in any given country are likely to fall into one of approximately four categories. First are what I would call legal constraints on authority to

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practice. These are the laws that govern your right to practice, and to do a particular kind of work in a particular country or subdivision thereof. That could be a state, a principality, a county, or whatever. Laws pertain to licensing requirements, credentialing requirements, qualification, and basic and continuing education requirements. Do you, for example, need a degree to practice? Do you need a certificate of authority from the local actuarial group? Is there an examination that's administered by the government that you have to pass? For example, in the U.S., regardless of one's professional credentials, one must be an enrolled actuary to perform actuarial services for pension plans that are governed by ERISA. So that means that you have to pass the exams that are administered by the Joint Board for the Enrollment of Actuaries. Similarly, you have to be a member of the AAA to be eligible to sign some kinds of actuarial opinions, which is a state law. So before you begin to practice in a particular jurisdiction, you need to make sure you can meet the applicable laws that govern admission to practice there. Otherwise, you may find yourself subject to the same kind of penalties that, for example, one might have if one were practicing law without a license in a particular area. Make sure that you can meet the qualification requirements of that jurisdiction.

Second, there are the laws that I would refer to as constraints on professional judgment. The selection of things like mortality assumptions, interest rates, or other matters that would ordinarily be based strictly on professional judgment in the face of given factual circumstances may be mandated by law in a particular instance. For example, I think we all know that, from an actuarial standpoint, women as a class tend to live longer than men as a class in the U.S. So from an actuarial perspective, if you're asking employees to contribute to a defined-contribution pension plan, it only makes logical actuarial sense to ask female employees to contribute more to the plan than male employees because, as a class, the women are likely to live longer and, therefore, to draw more money out later on. Well, although that makes perfect sense from an actuarial standpoint, it's illegal under Title 7 of the Civil Rights Act of the U.S., a statute that makes no specific reference to actuaries but does prohibit discrimination in employment on the basis of sex. The Supreme Court determined that this act prohibits defined-contribution pension plans from requiring female employees to contribute more than male employees simply because women happen to live longer as a class. It is important if you're going to practice outside of the U.S. that you become familiar with the laws that are going to impact the assumptions, the mortality rates, the interest assumptions and the other judgments that you would otherwise make based simply on the professional expertise that you've accrued.

Third, you will face constraints not only on your actuarial practice, but also on your practice as a business person. Every jurisdiction has its own laws relating to the operation of businesses. Labor laws, tax laws, corporate liability laws, contract laws, business solicitation laws, and particularly antitrust laws differ enormously from one country to another. In Germany, for example, employers are required to retire their employees at a specific age even if those employees think they're perfectly fine and would be just as happy to continue working. There is a mandatory retirement age in Germany. Now in the U.S., if an employer imposes mandatory retirement without regard to individual interests and abilities, then you may be running afoul of the Age Discrimination in Employment Act which prohibits discrimination based strictly on age. So to the extent you are going to manage a company, or operate a business in another country, you need to make sure that you have the legal advice necessary to make sure that your business comports with the legal requirement of that country.

Finally, there are the general constraints that are imposed by law on anyone who visits or resides in a particular country. Those are the laws that govern everyday life, and they cover topics that are as minor as how you buy cigarettes and what side of the road you drive and there are laws pertaining to bigger issues, such as marriage, property rights, or what constitutes a criminal violation. Like any visitor in a country, you need to know what the legal codes are and you must comport with those codes or risk facing significant penalties. Let me also point out that the laws of a particular country don't necessarily end with that country's national government. Just as we have 50 states and some principalities here in the U.S., and the laws of the states can differ dramatically from each other, it is also true that many, if not most countries have subdivisions, states, provinces, counties, or shires, that have their own governments and their own legal requirements. So it's a good idea before you start working in a particular country to get a basic understanding of the civics of that country—how the various governments within the country fit together, which governments have jurisdiction over what areas, and what particular requirements you will have to fulfill not only on the national level but also on the local level.

The law is just one area that you will have to think about. The next area that will be an issue for you as an actuary practicing in another country is the issue of what your professional obligations are. These are the obligations that are imposed upon you by your membership organizations, by the SOA, the Academy, the Conference of Consulting Actuaries (CCA), or any other organizations that you may belong to. Those obligations are considered fundamental to maintaining professional status.

The first obligation is your ethical rules. This is probably a set of professional obligations that is the most fundamental because it incorporates everything else. As members of the SOA, you are bound by a code of professional conduct that addresses your actuarial and ethical obligations whenever you provide professional services. The Society's code is identical to that of the Academy, the Conference of Consulting (CCA), the American Society of Pension Actuaries (ASPA), and the Casualty Actuarial Society (CAS). This is not an accident. We worked very hard to get one code for all five U.S. organizations. So what that means is that your obligations as a Society member are not going to change or be in conflict if you join the AAA as well. However, the Society's code of professional conduct is not identical to the rules of professional conduct of the Canadian Institute of Actuaries (CIA), although the two are very similar. The code is also not even very similar to the rules of professional conduct of the Groupe Consultatif which is the actuarial group for the countries that belong to the European Common Market. There are significant differences between those two codes, and in fact, there may be even greater differences between the code of the Society and those of the ethical rules of organizations that you may encounter in other countries. So if you're working in one country as a Society member who's bound by the code and there are other obligations that may or may not have been imposed on you, what are you going to do?

Let's assume for the moment that you're working in a country where there is a local actuarial association, and it has its own ethical rules. Let's further assume that you have decided to join that local organization. Now if there's no conflict in a given instance with the code of professional conduct and that organization's ethical code, then you're fine. You just follow both of them and everything is terrific, but let's say that there is a conflict between the two sets of rules. You can pick the tougher of the two rules, that is the rule that most constrains you and that requires the highest standard from you. You would follow that because usually a code of conduct will be a sort of minimum standard and

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there's nothing to prevent you from being even more ethical than that minimum standard requires. I have to point out that inconsistency is not always something where levels of toughness are easily ascertained. For example, in the U.S., if you know of another actuary's material violation of the code of professional conduct, you're supposed to report that to the ABCD unless you've been able to work it out otherwise, or unless reporting it would require you to disclose confidential information. In the U.S., the obligation to keep information confidential outweighs your responsibility to report under the code if you find another actuary violating the code. That means that if you can't report without disclosing confidential information, then you don't have to report.

In Canada, just the opposite is true. The obligation to report a material violation takes precedence over the obligation to maintain the confidentiality of information. Which rule is tougher? It's hard to say, but the two rules are different. Now in this instance, that problem has been resolved because if you look at the annotations to Precept 16, I believe, you'll find that when practicing in Canada, the code of professional conduct says, follow the Canadian rule. That's true for Canada, but it's not necessarily true for other nations.

So if you have a true conflict, and you can't determine which of the two rules is the more onerous or the one that sets the higher standard for you, then you have a choice. You can either follow the local rules and run the risk that the SOA may think you violated your obligations to it, or you can follow the Society's rules and run the risk that the local organization will think you violated your obligations to it. Not an easy choice, but one that you will almost certainly face. Now if you're not a member of the local actuarial organization, that doesn't necessarily mean that you won't want to pay attention to whatever rules that organization has because, after all, even though you are not a member of that organization, other local actuaries, with whom you will presumably be competing for business, are members. And so you're going to want to look at what they're obliged to do and recognize that they may be at a competitive advantage if their ethical code is somewhat less stringent than that of the SOA.

But again if there's a conflict with the code of professional conduct, you're going to have some difficulty and you're again going to have to choose between either picking the tougher of the two rules or following one or the other and running the risk that perhaps you will alienate the SOA in the process and maybe get yourself in trouble. What in some ways is most difficult is deciding what to do in the ethical context when there is no local organization because, at that point, the local actuaries, assuming there are any, will be operating more or less without professional ethical constraints. They may be bound by the same laws that you are and they may have their own ethical issues to deal with, but there is not that extra requirement being imposed by a local organization. In an instance like that, I would advise you to follow the code of professional conduct but recognize that in doing so, you may to some degree be putting yourself at a disadvantage.

Now as I mentioned earlier, the code of professional conduct incorporates, by reference, the standards of practice that are promulgated by the Actuarial Standards Board (ASB), and the code provides that whenever you perform professional services, you have to make sure that either you or the people working for you adhere to applicable standards of practice when providing the work. However, those standards are written with reference to U.S. law, practice, and custom, and they are not intended for use outside of the U.S. So if you're working in another country, you want to try to find out whether there are local standards of practice that have been promulgated by the local organization. If there are,

follow those standards unless you feel that they're inconsistent with good practice. As I said earlier, you can almost always raise the bar. But if there are no local standards and you're looking for guidance, you may want to make sure you take your standards of practice with you and use them as a reference, or as a starting point to govern your practice. Recognize that local laws, local customs, and local constraints may be such that the practices recommended in the standard need to be modified to accommodate local requirements.

The other issue that comes up, of course, is qualification standards which are again incorporated by reference into the code of professional conduct. These also are intended strictly for use in the U.S. So if there are local qualification standards that govern continuing education, basic education, and experience, find out what those are and make sure you can meet them. But again if there are not, you may want to refer back to the U.S. qualification standards simply for purposes of reference. You are operating under the premise that you may not be required to follow them in another country, but it probably couldn't hurt.

The two most obvious outside sources of professional obligation are the law and local professional requirements, especially those imposed by the SOA, but there's another area that I think invariably comes into play when you work in a particular country even though it may not be codified anywhere, and that is local custom—how does everybody do it? Now as it happens in the U.S., the obligation to follow generally accepted practice is an essential element of avoiding malpractice under the common law. If you're doing what is generally accepted, you're probably safe for purposes of risking legal action so that custom gets woven into the law. That may not happen in another country per se, but you're going to get to know quickly what the local customs are, and you may find that in some instances they violate your own ethical sense or your obligations under the code of professional conduct. So when you are practicing in a country where the local custom seems to raise some issues, you will need to think very carefully about what you feel that you as a professional must do even if it puts you at some competitive disadvantage with the local practitioners.

And finally, and perhaps most importantly, there are the issues that arise when your personal ethics or the ethics of your company run contrary to local practice. This is the bribery example that came up, what do you do when bribery is a common way of life, but it's contrary to your company practices and it's contrary to your personal sense of what's right. Now I should tell you that to some degree what is and isn't ethical may not be so much situational as cultural. For example, if you hand a maitre d' a \$5 bill to get you a better table at a restaurant, we call it a tip but it is a form of bribery, however, it's a form of bribery that many people in this culture are very comfortable with and nobody thinks very much about it. In another culture, you may have an exchange of funds that the people in that culture think of as a gratuity but looks to you like a bribe. Ultimately, I think it's incumbent on any professional to look past the obligations that are imposed by law, by organizations, by one's peers and ask himself or herself, "What do I believe, what are my personal ethical decisions, what can I live with, and what can I not live with?" And if, in fact, you can't live with something that's common practice in another country, then do what you feel you must. Legal requirements and professional requirements are all minimum standards. You can't dip below them, but there's usually nothing to prevent you from behaving in an even more ethical fashion than the local law or professional standards would require. So always be cognizant of your own sense of ethics because

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when you get into those difficult situations, that is the thing that is most likely to see you through.

Finally, in conclusion, before I pass the microphone to Ralph, let me just point out that of all the assets you have, a reputation for integrity is probably your most valuable. It will serve you well wherever you choose to practice, so take time to become familiar with your legal and professional obligations whether you're practicing in the U.S. or somewhere else, and make sure you satisfy them whenever and wherever you work.

MR. RALPH B. KOPP: On two occasions, the first for two months early in 1993, and then in late 1994 for another two months, I worked as an actuarial volunteer for a new private life insurance company in Sofia, Bulgaria. Bulgaria, a former communist country in Eastern Europe, is undergoing many changes since the political shift of 1989. Among these changes is the privatization of new businesses including a new life insurance industry. Previously there had only been one insurance company, the state-owned insurance company, but now there are about 40 insurance companies all together, and half of those are life and then the other half are property and casualty (P&C) companies. These developments are attracting more Bulgarians to the actuarial profession. The company I assisted was created in 1992. It was quite small and the personnel in the company were inexperienced in insurance. So they applied for technical assistance to one of the organizations that is part of the U.S. Agency for International Development. This organization, called the Citizen Democracy Corps, is one of the U.S. aid organizations. It was started in 1990 during the Bush administration. At about the same time, I was interested in doing some volunteer work, hopefully of an actuarial nature, and so I was applying to organizations such as the International Executive Service Corps which I think many of you may have heard of. I heard about this Citizen Democracy Corps and I sent in an application. I got a response almost immediately because they had matched me up with a company in Bulgaria. Soon thereafter, I went to Bulgaria, not knowing what the situation was. My primary focus was teaching actuarial methods to the company actuaries. The people I worked with most would be considered actuarial students. From what I could tell, most of these new companies, the people that are calling themselves actuaries had previously been economists, mathematicians, or data processing professionals. The actuarial profession there is fairly new, and they are only now developing some kind of formalized educational programs. Not surprisingly, there are no written codes of conduct or standards of practice in Bulgaria.

In telling you about my experience, I want to address the following question: when working as an actuary in a developing country with no standards of practice, what standards should I consider? Another is what might take place in the future in the development of codes of conduct and standards of practice for actuaries in Bulgaria? And third, I'll give some examples of what I perceive as sensitive situations that might apply to an actuary working in that country. My main assignments were to develop systems for reserve liabilities, and, to a lesser extent, to work on some new products. Soon after I arrived, I came to realize that not only were there no actuarial standards of practice (ASP), but there were no effective insurance laws, regulatory authorities, or any reserve regulations as we know them in the U.S. In the U.S., we have formal standards of practice that apply to generally accepted accounting principles (GAAP) and statutory reserve liabilities. Are they appropriate to use in Bulgaria? To answer this, we first need to consider why we have a certain standard of practice that applies to reserve liabilities.

The American public has come to expect that insurance firms and insurance companies are secure, and that these companies have the financial ability to meet contractual obligations. Supporting this view are the laws and regulations that have been enacted pertaining to reserve liabilities. Actuaries have a great responsibility in determining these liabilities, and standards help to ensure that we meet those responsibilities. In addition, we have standards because of the demands and expectations that we place on our profession. Standards reflect the development of actuarial knowledge and methods that are still evolving. This has become especially evident in the last 10–15 years due to all of the new standards that have been incorporated. These are some of the reasons we have standards.

Next we need to look at the circumstances that I encountered in Bulgaria and how they differ from ours. As I said before, in Bulgaria there were no laws or regulations, although there is a proposed law. It's not certain if or when it will be enacted. Also, the proposed law does not have any specific regulations pertaining to how you would calculate the reserves or whatever, there are no technical specifics at all. The companies are supposed to provide a financial report to the financial minister annually for the purposes of determining taxable income for the company. The companies do determine reserves on some basis, but I think it's just an approximation until they get a set standard or set laws in place. These financial reports that are submitted are not audited by any outside authority.

On the product side, most of the life products that are sold in the country currently are traditional life endowment policies at 20 years or less. These are traditional and I would say similar to maybe what we were selling about 30 years ago in this country. There are no current assumption products such as variable life or universal life or interest sensitive. Because of the high inflation in the country, there is an important and popular feature, which is the crediting of nonguaranteed excess interest. So there is excess interest that the companies will credit to the cash value of the policies usually at the end of each year. They'll determine some amount and add it in, and I think it's probably handled like an interest-only deposit account. They do have some books and actuarial literature, but the actuarial materials are representative of older actuarial methods. They tend to rely on such things as equation-type formulas or commutation columns. The technical people that I worked with most had been, for the most part, computer professionals or recent university mathematics graduates. The work that we did had to be fairly simple; it couldn't be too complex just so they would gain that level of understanding. On the positive side, the math knowledge and computer skills of these people were quite high and very strong. They also had a real ability and willingness to learn.

So all in all, circumstances in Bulgaria pointed to a great deal of future uncertainty, and in the company, inexperience. It seems that, on one hand, using the U.S. standards of practice maybe weren't necessarily helpful to our situation because the regulations passed in Bulgaria are likely to be different from what we would have. Our level of actuarial knowledge was much higher than theirs. On the other hand, referencing and looking at these U.S. standards were very useful to us because our U.S. standards emphasize the use of appropriate data, assumptions, methods and conservatism. They also stress the importance of communication and documentation. However, the desire to recognize all this relevant information was not always practical. Our emphasis on needing to be flexible, simple and the desire for understanding was maybe at the sacrifice of not considering all



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the possible factors that we might use when we're determining reserves or some other kinds of liabilities.

With the reserve project, we began by formulating basic assumptions and the first was mortality. The company was fairly new, and it had limited experience; it had only one death claim in the first year. There was no industry experience to speak of. Each year, the government statistical office would put together a population table based on the population in the country. For many years, the communists were very meticulous about keeping these statistics and putting forth this table. The table was split into males and females so we took the most recent population table, which I think was reflective of 1991 mortality, and we averaged it over the last three years. We related their table to the U.S. population table, and also to the U.S. reserve tables, particularly the 1980 Commissioners Standard Ordinary (CSO). We made some smoothing and loading adjustments to their tables to arrive at a reserve table. We also reviewed the underwriting practices of the company just to see what impact that might have on our work. Although I suggested it, there was no interest in incorporating smoker or nonsmoker assumptions. None of the companies in the country were selling any policies that were recognizing the distinction between smokers and nonsmokers. It's a country where people smoke very much. In fact, almost everyone in the company smoked including the doctors that did the underwriting. They were quite heavy smokers as well. The interest rate assumption was more difficult. Most of the assets in the company were invested in short-term bank deposits. With the inflation, these were earning over 60%. Inflation in 1993 was 50%, and in 1994, the second time I was there, it was over 100%. It seemed quite high. They told a story about inflation in the neighboring country, Serbia, which is having so many problems. They said, at one point in recent years, the inflation there was so high that if you went to a restaurant to eat, people would pay before they ate the meal because the bill would be higher after the meal.

The Bulgarian currency was the leva. For the last few years, there has been a steady decline in the value of the leva in comparison to the Deutsche mark and the dollar, as you might imagine. It was possible to invest in what they called hard currency accounts in the banks. And hard currency account would be where you supposedly were buying an account that was backed by the Deutsche mark or the dollar and you would get a lesser return; you could maybe earn 7-10% on these deposits. Again they were for about a year or less, but you didn't have the risk of the currency fluctuation. The policies that the company issued were not sold in the leva currency but actually in Deutsche marks. So you would pay premiums, you were still paying in leva, but you would pay in whatever the current exchange rate was. So it would change year to year. Eventually benefits would come back, in the leva, but they were based upon the Deutsche mark.

Reserve factors were per 1,000 Deutsche marks so we decided to use a reserve interest rate of 5%. When a law does come out, I don't know what it might be. It could be more or it could be less; it's hard to say, but we felt we were getting reasonable results with that. With the method, we used a modified reserve method of calculation, which is just a straight factor approach. The Bulgarian actuarial literature that I saw did make references to the use of modified reserve methods, but it didn't stipulate any particular thing such as a commissioners reserve valuation method (CRVM) or a full preliminary term or whatever. The first time I was there, we chose to use a CRVM method, and of course, that means that we're calculating this 19 pay life net premium and the full preliminary term and equivalent level amounts in this. When I returned in 1994, I realized that this made

no sense at all to these guys calculating all these additional factors. And so we changed that and we still used a first-year expense assumption, but we tried to tie it more closely to what their actual excess first-year expenses were and tried to balance that by at least setting up a conservative level of reserves as well. Again, all of this can be impacted when they finally do pass a law.

Using these assumptions, we developed reserve factors per unit. We did the work on a PC spreadsheet and they had all the U.S. software. I think we were using Excel for this, and it was good to do it in that way because it enabled them to see what was happening, what the process was. If we would change assumptions, change the interest rate or change the mortality, they could see what the immediate effect of that was. It was a good learning tool for them, and it made it much easier. A few of them spoke English at least the first year, and they used the Cyrillic alphabet, the Russian alphabet, but we could sit at the spreadsheet and we could do all this work and understand what was going on without an interpreter. Hopefully, when a law is passed, they can modify what we did in order to comply with what the regulatory changes will be.

While working with these Bulgarian actuaries, I tried to stress certain things. One is that in addition to selecting reasonable assumptions and appropriate margins, we were also working on documentation of what we did. I tried to stress that because that's something they weren't doing too much of. It's part of the old communist culture. People are not taking the time to do the planning or the documentation that they should and it's something they need to start doing. Another area was doing modeling and projecting. They had a real interest in this, and I tried to show them how they can use modeling and projecting as a planning tool, and also how they can use it to compare actual financial results for utilizing projections. Until laws and regulations and a regulatory authority are established there, the development of codes of conduct and standards of practice in Bulgaria is going to take some time. In the meantime, there is a need for a sharing of actuarial data and work experience among the various company actuaries. A real positive development that took place last year was the establishment of an insurance newspaper. It comes out every two weeks and it's similar to our *National Underwriter* so it's great that they have that going on. Another thing that took place last year was the formation of the Bulgarian Actuarial Society. They have about 80 members, but there are no formal qualification standards. It was just opened up to people that had an interest in being an actuary, and they're looking for help in terms of education from actuarial organizations in Britain, Western Europe, and the U.S. Most of the educational activity has involved England. The Institute of Actuaries and City University have sponsored a number of seminars the last couple of years. This year, there's a fairly comprehensive set of one-week seminars that they're following all through the year, and I think probably about 20-30 of these actuaries are taking this seminar, and I'm sure that anybody that has an interest will definitely be doing that. Dr. Vladimir Kashev, who's president of the Bulgarian Actuarial Society, has received books, materials, and exam materials from the SOA office, and this has been a great help to them. This is a service that the Society has been offering for some time now and it's a great thing.

There may be other ways that we, as North American actuaries, might be able to help the professional development of countries such as Bulgaria. One is that from time to time, we may have opportunities to have dialogue or contact with them. One example is some of these Bulgarians have attended the SOA classes that are conducted in Poland each summer. Another idea is to sponsor a young Bulgarian actuary in your company for a

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few months and give him or her some work experience. This could be very beneficial to these actuaries' future development and could give them some ideas about where their profession could take them, what they can do with it, and what some possible sensitive situations are pertaining to codes and standards that an actuary might encounter in Bulgaria. One area that I see is the control of the work product. If you develop a product there, how will it be presented to the customer? Currently, there's no restraint on what the company can say in advertising or in presentations. They credit this excess interest to these policies and with the high inflation they have now, they're doing projections of excess interest of 50% and projecting this to the end of 20 years. As a result, you get a huge number at the end of 20 years on that basis and it's very impressive.

The type of product that you might be developing may be another potential problem. We talked with these guys about how we might develop the universal-life-type product because there were certain features of our universal life product, like the flexibility of payments, that might fit into their situation even though there are, of course, the complexities of administering the product. They were reluctant to go anywhere with that because they were afraid that a future regulatory authority might decide that's not life insurance and doesn't fit in with what has traditionally been sold in their country. Another concern might be confidentiality of information. In the U.S., a consultant might work for two or more clients, and it's well understood between the clients and himself that he will not divulge confidential information of one client to another. But in Bulgaria, there's an atmosphere of suspicion, and a company would be afraid that an actuary who works for them might go to another company and tell them what the Balkan Company is doing. So there's a lot of suspicion right now, and the suspicion even extends to their own people. I talked to a local Bulgarian who found it difficult to get work as a consultant because many companies were afraid of that very same thing.

On the asset side, if you're examining or working with balance sheet data, assets, as they're presented, may not always be reliable. No one is reviewing books of the companies, and assets may be invested in inappropriate ways. For example, you might see assets presented on a balance sheet as a receivable from another party and if you were to ask the accountant about what this asset represents, you may not get very much information. Another inappropriate asset was fancy western cars. It seems that many times the first amount of money that comes in the door gets turned into a \$50,000 BMW or a Mercedes, and this was even true with the state-owned companies. Some of these state-owned companies, when they were getting enough cash, were buying a car looking at it as a real status symbol. If someone has a fancy car, that person's company is a success and hopefully it will generate more business. When formulating assumptions or getting information, it's important to ask many questions and probably to talk to many people. You'll probably get many different answers and at least some misinformation. One day I was talking to a woman who was working in the investment department of the company. I was trying to get some idea of what you could earn on these bank deposits. In more reliable banks, you could earn about 50% or 60% but in some banks such as this Lotof Bank, you could get a return as high as 150% per year on deposits. And so I asked this woman if this is a good thing to do, and she said, no, that this Lotof Bank, and she was very emphatic, is not a good bank; it's a very risky bank, and I must not put my money there. The next day I was talking to the actuaries and they were saying that this woman is very intelligent and does very well on her personal assets. And I asked, what she invests in. They said that she's was putting all of her money in this Lotof Bank, the same bank that we talked about the day before.

The last word of advice is about giving interviews. I gave two interviews to two different companies in Bulgaria. When the first article came out, it was in a very reputable newspaper called *The Standard*. There was a picture and an article and I thought, oh, this is great. And then when the second article came out in a different newspaper, instead of it being the Bulgarian version of *The National Underwriter*, it was the Bulgarian version of *The National Enquirer*. It may be wise to be careful about whom you talk to.

MR. WATSON: I want to make a few comments, and because I didn't introduce myself, I should mention why I have any qualifications to talk to you. I have spent some 23 years doing international consulting in the benefits area. I might also add that, at the moment, I'm the American Academy's Vice President for Professionalism and the past Chairperson of the Committee on Qualifications so I know about these issues, or at least I should know about these issues.

For many years, it was the consultants who spent their time working overseas, and basically consultants intended to be working for either U.S. companies, or if they were working more intensively in foreign countries, they usually tried to hook up in some way or another with local consulting firms either on an informal correspondent-type basis or through direct financial ties, whether it be joint ventures or what have you. We now find that within the last five to ten years, an increasing number of insurance companies are becoming very interested in entering foreign countries often through the establishment of either joint ventures or outright subsidiaries; of course, sometimes it's a two-way street. We know that some foreign countries have been very active in purchasing American and Canadian companies. I just give that as a slight preamble because if you look at some of these questions, there are some issues that pop right out at you, and one of them is the fact that you have to be very careful about whether you have the real qualifications to practice in these foreign countries. If you look at the North American Free Trade Agreement (NAFTA) as an example, there are a number of people who are becoming quite enthusiastic about becoming qualified to actually sign official government statements in Mexico. Well, as a benefit consultant, I was never interested in signing any official statement in any foreign country because I figured that I didn't know enough and was not being paid to learn enough to do that. Now I realize this can be different for an insurance company that has purchased a Mexican subsidiary; you might want to send a U.S. or a Canadian actuary down to the country to be the chief actuary, but I would caution you all that if you are practicing in a foreign country, you need to be very certain that you know enough to do what you're being asked to do. It's partly a matter of language. I speak French and German reasonably well, and I can sort of fumble around in Spanish, but I'm absolutely positive that I would not want to read the legal code of France in French. I wouldn't know with absolute certainty that I was doing what I should be doing.

Another issue of some interest is the question of conflicts among various organizations you can belong to. For example, I'm a Fellow of the Society and a Member of the Academy, but I'm also a Fellow of the CIA, and I'm an Associate of the IA of the U.K. Now this sorts itself out very well when I'm practicing say in Canada or in the U.K. or to some degree in Europe, but if I go into a country where there is no actuarial organization, as Ralph was talking about, I'm told that I should follow the code of conduct and standards of practice of the SOA. Unfortunately, I'm also told by the CIA that in such circumstances, I should follow the code of conduct and the standards of practice of the CIA, and, not surprisingly, the IA tells me I should be following its code and its standards of practice. When I go to another country, I say, well now, let's see, this is Monday.

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Am I today a member of the Society or am I a member of the Canadian institute? As a practical matter, because I'm more concerned about preserving my Society membership than the other memberships, I think I would follow the Society's standards. In cases where these things can differ and where one of the other organization's standards may comply more closely to the prevailing mores of that country, you may have some difficulty in deciding what you should do.

Lack of data is another problem. It is one of the great constraints in these countries, with one death in the first year, how are you going to choose your assumptions? I've done some work on social security systems where we have had data from, at best, 5% of the population, and based on that we are supposed to produce indication of the financial situation of the system. We tend to know a lot about the benefits that are being claimed or certainly more, but we certainly don't have any idea about the income source for the system. And since evasion of paying social security taxes ranks right behind avoidance of paying income taxes in some of these countries, it's a difficult issue. I'm also familiar with at least one Middle Eastern country, I won't name it, where the pension plan for the civil servants and the armed forces was to be conducted without any information whatsoever about the covered population. This was too important to give to the actuary, and you were expected to produce a valuation without that information being available to you. This proves that you can run into peculiar situations, and you are going to have to become very adept at having these comply with your own conception of what your ethical standards and your standards of practice should be. You mentioned inflation. In the U.S., we tend to say that each assumption should be our best estimate of what is involved. Now if you have inflation, it affects of course many things like salaries, interest rates, and benefits. In cases like Brazil where everything is indexed, you might start off with a best estimate of an interest rate and end up having say 20-25% or 50%. When you plug this into the computer, you will find that your computer has blown its brains out because the salary of an individual has, assuming it goes up by 100% a year, at the end of his working career, suddenly gone beyond the end of any of your registers. It doesn't matter whether you start off with a salary of one—you're still out of range; it's a small technical problem. But what it does mean is that in situations like that, you have to ignore the concept of having each assumption be your own best estimate; you should try to look at the situation where the interrelationship makes sense. In many of these countries, you just ignore inflation, you use inflation-free assumptions and that's about the best you can do. There's also the problem of fluctuation of currencies which is another problem especially if you're working for a U.S. company and they want to know what that is going to mean in terms of their balance sheet back in the home country. Who knows?

I have no real solutions I can offer except to say that I think if you go to another country, you are going to have to be careful but creative in applying at least the standards of practice and you're going to have to be careful and very rigid in applying your code of conduct. You're certainly going to have to be aware that you do need what you might call standards of qualification to do your work. With that in mind, I'd like to see if we have some questions.

MR. JOHN W. ROBINSON: Lauren, you had made a statement that the Society's code of conduct is intended for use in the U.S. I have the code here and in precept 4, the first part of the annotation reads that it's the professional responsibility to observe applicable standards of practice in the jurisdiction in which the actuary renders his professional services and to keep current regarding changes in these standards. I would suggest that

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it's more than implicit; it is explicit that if you happen to be in another country, then you ought to be following those standards.

MS. BLOOM: I think it's explicit as well. Let me clarify. The standards of practice are intended for use in the U.S., and the qualification standards are intended for use in the U.S. There are sort of two schools of thought when it comes to the code of professional conduct, one of which is when in Rome, do as the Romans do. That is to say that your membership organization shouldn't burden you more heavily in another country than the people that you are working with in that country. The other school of thought is if you are a proud member of the SOA, then you should do whatever the Society says wherever you go. This isn't a problem as long as you're working in a jurisdiction where the local code is as stiff as the code of professional conduct because presumably you follow both of them and it's not a problem. It becomes a problem where you have local rules conflicting with the code of professional conduct or where there are no local rules at all. And so by adhering to the code of professional conduct, you're actually holding yourself to a higher standard than other local practitioners might. As I say, when it comes to those situations, I think the leadership of the profession here in the U.S. is struggling with how severely to impose the code of professional conduct where members are going to be competing in the marketplace with actuaries who aren't subject to similar restraints. I guess what I would say to you is behave in the most ethical manner possible which is to say follow the code even if it makes life a little tougher for you.

MR. ROBINSON: Just two points following up and expounding on the theme. One of them certainly concerns the area of technology. I think when you face a requirement that you have to do cash-flow testing, not all countries have the technology and you'd be hard pressed to build it within a year. That's just one specific. The other one that probably was not intended to be addressed in this session is the fact that you have members of the Society who reside in those countries and they took their exams there; they certainly ought to feel free to do what they're doing in spite of what might be going on in this country. And so I think one of the things I'd suggest is that as the thing now stands, it is appropriate for the Society to continue to be sensitive to that situation as long as you're exporting membership and exporting education across the world.

MS. BLOOM: I think you're absolutely right about that, and I do think the technology creates constraints everywhere including in the U.S. That's one of the reasons that the ASP has the deviation clause at the end. That allows you to deviate from the standards as circumstances require so long as you document that deviation.

MR. WATSON: John, in response to your second point, I think that's a very serious one and I know that the Society is becoming very interested in the question of if it is going to be actively involved in giving educational opportunities around the world. Then it is going to have to pay considerable attention to what it requires of those members who are, as you say, nonresident members of the Society who were never U.S. residents. The code of conduct is one thing, probably standards of practice are another, and it's going to be interesting to see how it works out, but it is not being neglected. More questions.

MR. JAMES R. KEHOE: I have the unique distinction in this audience of never having worked in the U.S.

MR. WATSON: Some of us never worked in the U.S. either.

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MR. KEHOE: The reason I'm here is as President of the Society of Actuaries in Ireland and, happily, as a guest of your organization. Could I just make a brief contribution to the debate? Lauren, you correctly mentioned the variety of situations which exist even within countries where you might have different arrangements of tying within different local jurisdictions, etc., but there's one aspect of international practice that wasn't mentioned and I think it is very relevant. Regulatory authorities among nations may require common standards of practice. For example, the European Community has an actual directive, a government directive, on the freedom of services. In other words, any professional irrespective of whether he or she is working in the medical profession or is an actuary has the absolute right to practice within his or her own profession across the entire spectrum of the European Community. Now that's a big problem for local actuarial associations because, for example, the insurance industry may have developed differently within one country relative to another; there may be many technical reasons. I mean you cited the example of discrimination being just one example of differences in practice. There may be many reasons why an actuary from Portugal might serve the common good by simply immigrating to the U.K. and putting up a brass plate and practicing in the life insurance business. So, for that reason, the professions have introduced things like a requirement of a period of residence of perhaps a year or whatever to try and make sure that people are adhering to standards, but the regulatory authorities have a very significant say in this sort of thing.

Ours is a very interesting role model in the sense that our Society isn't an examining body; nevertheless, we do have extremely good relations with the government as such and to practice as an appointed actuary in Ireland, that is to say an actuary responsible for the solvency and rating of a life insurance company, etc., the government insists that a person must be a Fellow of the Society of Actuaries in Ireland, not a Fellow of the IA which is our professional examining body. The reason is very simple. We, as a society, have developed our own standards of practice, our codes of conduct, our disciplinary procedures and above all, our guidance notes on professional issues; therefore, we are a useful tool to the government because we have that type of regulation imposed, and I think the profession internationally is probably moving in that direction. The initiative of Paul McCrossan is gathering a lot of momentum. His objective as a member of the steering committee of the International Federation of Actuarial Associations (IFAA) is to try and introduce this whole concept of standards of practice, educational standards, and disciplinary procedures worldwide so it hopefully and happily will probably become less of a problem. One will probably find that standards of practice and professional ethics, etc., will increasingly gravitate towards what you have in the U.S. because your standards are certainly very reminiscent of what's happening in Europe and I think the McCrossan objective and that of IFAA is to try and make sure that the kind of standards that you have are applicable worldwide so hopefully the problem will be less of a problem in future years.

MS. BLOOM: I hope so as well. It sounds as if the Irish Society in some ways occupies a very similar position with its government to the role that the Academy has here. The Academy is not an examination body either, but Academy membership is required, by some of our state governments, to sign some of the state requirements. The other difficulty we have in the U.S. is insurance is regulated by the states, not by the federal government. So every state is a little different as discovered when we tried to argue with the liability provisions under the Standard Valuation Law for example. It means I have to go to places like Pierre, SD, to talk to the local governments when I want to get changes made. But I do think it's important to recognize too that as this process goes forward,

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there are going to be bumps in the road. I'm delighted to see it happening. I think it's very important for professionalism to be a focus for actuaries all over the world. It is happening and it's happening with greater enthusiasm and I think the IFAA effort will be another great step forward in that general direction. But the differences between countries are, in some instances, significant as we found out when trying to implement NAFTA between Mexico, the U.S., and Canada. There's a lot that we still have to work out.

MR. WATSON: Lauren, your mention of NAFTA I think is very relevant in terms of what Jim Kehoe said because in NAFTA, basically we are committed to allow opportunities for Mexican actuaries to practice in the U.S. and Canada, Canadian actuaries to practice in the U.S. and Mexico, and the U.S. actuaries to practice in Canada and Mexico. It's much like the European Community countries. We are working on that question of what should be required, and the basic concept being examined now is at level one, which is just the right to earn an income, to get a work permit if you wish, which would be met by being a fully qualified actuary within the country that you're coming from. A Fellow of the Canadian Institute of Actuaries (FCIA) in Canada, a Member of the American Academy of Actuaries (MAAAA), and a member of Colegio Nacional de Actuaries (CONAC) in Mexico are deemed satisfactory in the U.S. When it comes to the next level which is the signing of statements which is like the approved actuary concept, then there will be higher requirements that will be instituted so you will have to demonstrate not only a knowledge of actuarial mathematics, but the particular practices, laws, etc. We're having the same problem over here.

MS. BLOOM: Yes.

MR. WATSON: I asked Dan McCarthy the question of what differences he saw for actuaries between professional ethics and corporate ethics. I wasn't entirely satisfied with Dan's answer, and so I'm going to ask you the same question as to what differences you see.

MS. BLOOM: Well, let me start by saying that I can't speak for Dan's answer and you may not be satisfied with this one either. I was very taken aback to hear Ms. Toffler say that she thinks there's no such thing as corporate ethics, that ethics are the ethics of individuals, and that companies can't have ethics. I absolutely disagree. Whenever you get a group of human beings together whether in a family, in a university, in a professional association, in a company, or whatever, that organization will develop a personality, it will develop ethics, it will develop a code of conduct for its members and people who don't understand the rules. They're either explicit or implicit. In fact, if you want to do something interesting when you go home, if you have children, ask them what the family rules are. I guarantee they can tell you what they all are and you may be a little surprised and maybe a little taken aback, but I guarantee that your kids know exactly what the family code is. I think corporations have ethical systems. They may not be the same from corporation to corporation, and I do think that the ethical conduct of individuals within a company is not necessarily going to be enough to turn an unethical company into an ethical one. I do know that the role you play at least within the framework of American law and custom is such that the ethics of an actuary, and particularly the actuary who is the head actuary for a company, is critical to the ethics of a corporation insofar as you are management with responsibility for being that sort of gatekeeper to the well being of the company and the people that the company serves. So I think that actuarial ethics are critical to corporate ethics and I think the two go hand in hand.