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Session 110GS
SOA/AAA/CIA General Session

Keynote Speaker: LYNN BREWER
Speakers: BARBARA LAUTZENHEISER
MIKE LOMBARDI
NEIL PARMENTER

Summary: Not for sale! Professionalism is "priceless" for many reasons--its value is beyond quantification and its attainment is not through barter. This session will speak to the paramount importance of professionalism and also provide a cautionary tale about its disappearance from corporate life.

Current presidents from the AAA, CIA and SOA highlight the central place professionalism and ethical behavior has in actuarial practice.

Lynn Brewer, author and former Enron executive responsible for risk management in gas and power, will detail what happens when ethical behavior gets overrun by naked avarice. "House of Cards: Confessions of an Enron Executive," is her gripping account of nearly three years spent with the company that has come to symbolize the worst in corporate greed. Ms. Brewer provides a shocking look at the notorious illicit deals and the unscrupulous people who made them.

MR. MIKE LOMBARDI: As we look at professionalism today, we hope to stimulate your thinking and perhaps even to stir you with a little controversy. I will speak about two interrelated questions: What does professionalism mean in the CIA, and what does professionalism mean to me?

When we consider other professions, such as doctors, lawyers, engineers or accountants, we note that of the people in these professions are uniquely qualified and organized to provide the public some special service. The public often grants these professions a special recognition or even monopoly power. It is the responsibility of these professions to ensure the public trust is well founded. Indeed, the CIA's first and most important guiding principle is to put the public interest first even, if need be, ahead of the interests of its own members.

Like other actuarial bodies, the CIA has developed the following necessary characteristics and code of behavior: It's rules of professional conduct and standards of practice unifying all areas of actuarial practice, which include education and experience requirements, a process for monitoring standards, and enforcing discipline and continuing professional development requirements.

Finally, the CIA encourages self-policing of colleagues. All these characteristics should be familiar to members of other actuarial bodies. In addition, the actuarial environment in Canada includes some unique features not found in other countries. Let's look at a few of these. The first is legislative recognition. Fellows of the Canadian Institute of Actuaries, FCIAs, are recognized in Canadian federal and provincial legislation as the only individuals who can render actuarial opinions with respect to pension plan funding and insurance company solvency.

This special legal recognition and responsibility allows the profession to speak authoritatively with one voice in dealing with governments, regulators, media and the general public. The second feature is, for lack of a better word, whistle-blowing. For actuaries of insurance companies, commonly known as appointed actuaries, there are special obligations. It is the duty of the appointed actuary to warn management when the company is headed in dangerous territory. If company management does not heed such warnings and fails to take appropriate action, the appointed actuaries are required to bring such issues to the attention of the regulator. Whistle blowers often risk termination of employment or legal action. However, in this whistle-blowing capacity, the appointed actuary is protected by special legislation called "qualified privilege," which enables the actuary to perform his or her duties in good faith, without the threat of legal action. This whistle-blowing responsibility can create tension between the appointed actuary's role as a member of company management versus his or her role in performing a quasi-regulatory function. However, in practice, this role is well accepted. Rather than being alienated from colleagues, the appointed actuary is welcomed and able to act as a full member of company management.

The third feature is peer review. For a number of years, peer review has been much discussed within the CIA as an additional means to assure our users and the general public about the high quality of our work. At times discussions on peer review at general meetings have been quite spirited. Disagreements have been with respect to how it can be applied in practice, whether it should be compulsory or voluntary, and whether it should apply to some or all practice areas. In any case, the current situation in Canada is that peer review is now mandatory for insurance company actuaries.

To guide actuaries in performing this role, a few months ago the CIA gave final approval to an education note, which can be referred to by actuaries conducting the peer review process. And, as promised, let me conclude with some personal observations on professionalism.

Trust. Trust is an important part of professionalism. To preserve trust, our rules of professional conduct provide some guidance about conflicts of interest. However, these do not completely prohibit conflicts, but instead require that where there may be an apparent conflict, then that conflict must be disclosed. So it is up to us to ensure that disclosure of a personal interest in the outcome be made clear, not just to immediate clients, but also to other potential users of our work.

Fairness. Actuaries tend to take the view that they have special expertise in making decisions about what is fair and equitable. However, we must be mindful of critics who believe we sometimes act with too much arrogance or confidence about our ability to make wise decisions or to judge between competing interests.

Ethics. Actuaries are not simply by definition more ethical than others. However, having to think about ethical considerations in relation to professional issues may make us more sensitive to ethical issues in general. We often know what the ethical thing to do is, but we sometimes find it difficult to apply in practice. We need to continue to set and achieve high ethical standards of practice for ourselves because that is what those who rely on our work expect.

Let me conclude these opening remarks by encouraging all of us, whatever our current job, to embrace professionalism. Far from being a burden, professionalism is, instead, that which gives us our status, our recognition, our remuneration and ultimately, our freedom to do and be our best.

MR. NEIL PARMENTER: I think the idea of the various organizations getting together to talk about common issues, is great, and I'd like to see a whole bunch of it in the future. We all have so much commonality in the issues and solutions that we can share.

One of the best things about this type of forum is that it allows us to look at the same issue from different perspectives and, in this particular case, I'm going to draw upon my personal experience to speak about the importance of professionalism as it relates to the actuary being placed in a difficult position in today's environment, between two or more different perspectives.

I'm here to indicate how important professionalism is to one area of practice. And by extension, to emphasize how critically important professionalism is to each and every practice area. That said, let me say that my personal experience may be a bit unique compared to that of my two colleagues on the podium. I passed the examinations, qualified, and then served for two decades as an enrolled actuary as defined under the Employee Retirement Income Security Act (ERISA) in the United States. As you may know, this legislation related primarily to defined benefit (DB) plans. And as the enrolled actuary, I spent most of my time working on these plans from a valuation and funding perspective. My comments today will attempt to illustrate the many interesting situations possible in that environment.

According to ERISA, the enrolled actuary functions as such for the plan participants. However, the enrolled actuary is also cognizant of the participant plan sponsor. Frequently, the participant’s employer, the actuary’s employer is another factor in the equation and sometimes even an employee organization, such as the union, may be part of it.

The perspectives of all these entities may diverge or, at least, not always converge. For example, let’s say the participant desires liberal benefits or, given an established benefit level, the participant desires maximum benefit security in terms of funding. On the other hand, the participant is also interested in plan continuation and may find it necessary to support a lower funding level to assure plan continuance. Now the participant’s employer could have interests that range from a maximum tax deduction to the barest minimum legal plan contribution. In the latter case, the participant and the employer may have different perspectives. So you begin to see the interesting situation in which our hero, the enrolled actuary, may find himself or herself. The enrolled actuary’s employer may be in business not only to provide actuarial services to DB plans, such as a consulting actuarial firm, but may also work for an investment type firm, such as an insurance company, which also happens to provide actuarial services. In this case, the perspective of the enrolled actuary’s employer may be to favor higher asset accumulation in the plan, which may be consistent with the participant’s perspective, but inconsistent with the perspective participant's employer. Confused so far? The plot thickens.

Now along comes another entity—one who represents the participants, such as the union. The perspective of the employee organization may be higher benefits. Higher benefits cost more money. And now we’re back to some of the potential for friction we talked about earlier. What’s the answer? If you’re looking for a sure thing, a quick-fix panacea, I’m here to tell you there isn’t one, and that there is one. I don’t really think my place is to get into the blanket advice business, although I have to admit, there is something very seductive about thinking about thousands of actuaries all over the world muttering "What would Neal do in this situation?"

There is no hard and fast solution. The bottom line is to always act with integrity, honesty, competency and transparency. Open, factual communication is vital. By the very nature of our profession, people put a tremendous amount of trust and faith in us, seek our opinions and heed our counsel. As a profession, we are known as surefooted problem solvers and trusted advisors. But remember, it only takes one black mark to forever taint an otherwise spotless reputation. Ask anyone at Arthur Andersen about that.

What I’m trying to say is that behaving with the utmost integrity and honesty, as actuaries have done since actuaries started being actuaries, the overriding principle of professionalism that we should follow is honesty, integrity, transparency and competency. If we do that, then we should do well.

MS. BARBARA LAUTZENHEISER: This is the dynamic actuarial profession. Words alone cannot express the great pleasure to which I once again speak before this august group of actuaries, 20 years ago when I did so in my Society of Actuaries presidential address. I'm going to be delivering the same message I did at that particular time. Because it's not only as relevant, but even more relevant today than it was 20 years ago.

The message is that every one of us is *all* of us. Everything we write, everything we say, everything we do, reflects on the entire actuarial profession. All professions are being challenged today, and the lack of professionalism and sometimes even fraudulent behavior of a few reflects on the professionalism of many. The requirement for professionalism has always been there, but in the past, professionalism was assumed to be present until proven otherwise. Today, we have to anticipate that it will be challenged over and over again and even in the same project or concept.

The press coverage of misconduct and perceived misconduct in other professions, and I say yes, even perceived misconduct, makes our audiences more skeptical and our actions more scrutinized. The uniqueness of our actuarial profession, both in our abilities and in our numbers—there are approximately 20 members of the AICPA and 25 members of the ABA for every member of the AAA, the American Academy of Actuaries—makes the impact of any individual transgressions even greater.

Congress's rapid and extreme response to the Enron and Arthur Andersen issues demonstrated that lawmakers are deeply concerned with apparent corruption and are willing to act swiftly to eradicate it. A comparable scandal, involving even a few actuaries, would have a major impact on our profession. Professionalism is important for every profession, but in my view, it is particularly important for actuaries. If our actuarial education, skills and judgments are to be valuable, trusted and relied upon, they must reflect a high level of professionalism. One of us not doing so may imply any or all of us might not do so.

Professionalism is a complex concept, but its premise is simple. Do the right thing. Tom Peters in his book, *In Search of Excellence*, explains how an airline's safety is judged by the tray tables' cleanliness. Your practice in your business life and even in the actuarial profession could be judged by the practices in your everyday life. If you saw your neighbor cheat his cable company by illegally wiring into it or knew that a friend cheated on her insurance claim by padding it, or if you heard someone brag about breaking a traffic law, would you trust him or her with your financial security?

The North American actuarial profession's vision is that the actuary should be recognized as the architect of financial security. Trust in an actuarial architect of financial security or any of us in our business lives can be undermined by the actions in our private life.

Thomas Jefferson said, "Ask yourself how you would act were all the world looking at you. And act accordingly." Personally, my mentor is Jiminy Cricket! He’s well known for his advice: "Let your conscience be your guide." That is, do the right thing. Taking that advice and doing the right thing in your everyday life will also make it more automatic for you to do the right thing in your business life.

There are, however, times when doing the right thing can take many alternative paths, and that’s where Jiminy Cricket’s second piece of advice can be helpful. To paraphrase, he said, "It’s what you do with what you got that counts." And what you’ve got is a code of professional conduct to guide you in your professional practice. And what you have is the CPC, the Committee on Professional Conduct in Canada and the ABCD, the Actuarial Board or Counseling and Discipline, in the United States. That letter of C for "counseling" is very valuable to you. Approximately 75 percent of the ABCD's work is counseling. Candidly, my goal would be that 100 percent of the ABCD's work would be counseling because that would mean we could eliminate discipline. So what you do, if the right thing to do is not clear, is contact a member of the ABCD or the CPC, and you have the opportunity for his or her counsel. What counts is performing your work with the highest level of professionalism.

You are all very special and very important. You are all uniquely professionally educated and trained in actuarial science. You are all uniquely positioned to receive counseling on professionalism and actuarial science, and you are all uniquely empowered to represent and be leaders in the expression of professionalism of our actuarial profession. You are our profession’s most important emissary and asset. Go to it!

MODERATOR: Once again, let’s say thank you to Mike, Neal, and Barbara. Our keynote speaker this morning is Lynn Brewer, the author of *House of Cards: Confessions of an Enron Executive*. During her nearly three years at Enron, Ms. Brewer was responsible for risk management in gas and power trading operations, the e-commerce initiative for Enron’s water subsidiary, and competitive intelligence for Enron Broadband Services. While at Enron, Lynn witnessed numerous incidences of the illegal and corrupt dealings including bank fraud, espionage, power price manipulation and gross overstatements to the press, the public and the financial world.

Lynn’s book is her account of those years with a company that has come to symbolize the worst in corporate greed. Her story provides an inside look at both the now notorious deals and the people who made them. Prior to joining Enron, Lynn worked in forensic accounting and spent 18 years as a legal professional in private practice until joining Ralston Purina, where she worked in corporate development for the general counsel and chief financial officer.

In July of last year, Lynn founded the International Society of Ethics Examiners, a global, nonprofit organization whose aim is to rebuild investor confidence by establishing a uniform set of ethical and disclosure standards. She currently serves as that organization's chairperson. Please join me in welcoming Lynn Brewer.

(Unedited film on Enron) "We're strong believers in competition. We have the people and the skill base and experience to win in a competitive marketplace." (Ken Lay)

"Virtually every industry that's opened up for competition sees tremendous innovation, almost immediately." (Ken Lay)

"Reducing electricity cost is only one benefit from choice and competition." "We're creating whole new businesses. In some ways, even whole new industries." (Jeff Skilling)

"Every year, every day, every week, you have to come up with new ideas, new approaches to the business. That's not easy, but I think if you can get the organization in that mode, that's a tremendous competitive advantage. A tremendous competitive advantage for the company." (Jeff Skilling)

"It starts with good people. Recruiting, retaining, motivating creative people, intelligent people and really have the capability of thinking about the world a little differently." (Ken Lay)

"And if you have good people, and you have that good environment, they start coming up with good ideas that work in the market. In the old days I think a lot of companies were designed as mechanisms. You have this cog here, and that turned that wheel there and everybody knew exactly what their job was. It's increasingly hard to run a company that way. When you see the kind of change that we see in our markets." (Jeff Skilling)

"We began by attracting the kind of people that are more comfortable in an environment of change." (Ken Lay)

"You know when you work for Enron, you're going to see the newest thinking. You're going to see the newest products, the newest services. You're going to see the newest markets opening up, the newest ways of thinking about things." (Ken Lay)

"We do create entrepreneurial centers. We do allow people a lot of discretion and how they run their businesses." (Ken Lay)

"A lot of organizations like to stamp out the non-conformist, the non-conventional thinker. But a lot of times they're the people that really are the future. Because they're thinking about things differently. They come up with new ideas." (Jeff Skilling)

"Many studies have shown that some of your most creative ideas come from some of your newer and younger employees and also, from your employees that are more remote from headquarters. I'm not sure what that says about headquarters, necessarily." (Ken Lay)

"Yeah, we found that the quality of ideas is proportional to the distance from the 50th floor." (Jeff Skilling)

"We have a lot of very aggressive people in the company. A lot of people have a point of view on what they should be doing and how the company ought to evolve and that's great, because that's what you want. You want the organization to move as people find opportunities. You may disagree with someone and that's fine, let's get the disagreement out on the table and let's resolve it. But let's do it with mutual respect. Diversity is good. Diversity of ideas, diversity of backgrounds, diversity of people's opinions." (Jeff Skilling)

"It's incredibly important that we encourage diversity of people and diversity of thought, throughout our company, worldwide." (Ken Lay)

"It's a tough world out there. It's very competitive world and there probably are times that there's a desire to cut corners. We can't have that at Enron." (Jeff Skilling)

"Enron is a company that deals with everyone with absolute integrity. We play by all of the rules. We stand by our word. We mean what we say, and we say what we mean. We want people to leave a transaction with Enron thinking that they've been dealt with in the highest possible way, as far as integrity and truthfulness and really doing our business right. We really do want to be excellent in everything we do. Excellence hopefully in the ideas that we have; excellence in the people we have; excellence in how we treat our people, how we operate our plants, deal with our customers, and protect the environment. In fact, everything else we do, we kind of set the standard." (Ken Lay)

"What it ultimately comes down to is your customers. Customers view us as a resource, a unique resource to help them do their business. Or to make their lives better. We want to communicate to our customers that we will try new things. That we are innovative; that will help them do their business better than they could do it otherwise." (Jeff Skilling)

"When they think about Enron, I hope they think innovation. They think of the company that's going to provide new, creative energy solutions, a company that will be on the cutting edge of the changes in the industry, wherever those changes are occurring. In the process, we're redefining the energy industry. If there is one thing that I hope that we can achieve it is to create an environment where our employees can come in here and realize their potential." (Ken Lay)

"It's a wild ride." (Jeff Skilling)

MS. LYNN BREWER: First of all, I have to tell you that that film sits completely unedited from what I saw when I first went to work for that company. And yet, today, no matter how many times I see that film, I still want to go to work for that company. So I don't know if that says more about Enron or more about me, so for the next few minutes, you can decide whether I'm really the problem or Enron is the problem. But I want to thank you for inviting me here today, because it is only through sharing my experiences with you, that I can then bring that home to you, so that you can understand how something like this happened, not only at Enron, but has become a societal problem.

First of all, I want to give you a little bit of history. How many of you understand what Enron did or was? Okay there are a few of you here. I'm going to say there's probably about a quarter. I want to explain to you what Enron was and what they did, so that you understand where we start.

Originally, they were a boring, gas company. They transported gas from point A to point B and ultimately to an end-user through a local distribution company. But that wasn't good enough. Boring wasn't good. So it was replaced with innovation, and they began trading natural gas like a commodity. And that is fine to some degree because initially what was meant to happen is that with deregulation, it would stabilize prices. What Enron quickly learned, or the innovative people inside Enron quickly learned, is that by manipulating the prices, they could establish a market as a risk management company, you create the market and then you come up with the solution.

In the natural gas world, that's to some degree okay, because you can store natural gas and you can predict future through the storage levels. They thought if that's good enough for the natural gas industry, let's try it with power. But you cannot store power, and so there is greater volatility, and greater volatility means greater earnings.

In the summer of 1998, for those of you that live in the Midwest, there was a shortage in June or July of 1998 and power prices went from $35 a megawatt hour one day to $10,000 a megawatt hour the next day! That equates to filling up a Toyota Camry for $6,000. Eventually, in a very expensive game of musical chairs, somebody couldn't deliver that power, and ultimately, there were elderly people who could not get power who perished. You cannot trade power like potatoes.

So Enron went on its innovative way and in April of 1998, I went to work for this company. I was recruited to head a new risk management group that would brief, among other things, the off-the-balance-sheet partnerships that we have heard so much about of Andy Fastow's for senior management.

Within six months, I would discover bank fraud to the tune of a quarter of a billion dollars when a loan by Nations Bank and Bank of New York, secured by a gas in an underground storage facility did not exist. I went to my supervisor and I said, "We have a bit of a problem. I have just learned from the lawyer that closed this deal on December 31, 1997, that the gas does not exist." And she said, "Aw, just leave that out of your brief."

In my mind, I am now at a point of the road less taken. I'm a new employee; Andy Fastow is not worried about it; the lawyer that closed the deal is obviously not worried about it; my supervisor is not worried about it. The bank obviously isn't worried about it. So why should I, as a mid-level employee be worried about it knowing that ultimately I would have to leave the company?

So I chose to look the other way. And I would watch, time and time and time again as 10,000 gas contracts would get moved from one subsidiary to the next, each quarter, again, in a very expensive game of musical chairs, to move assets around in a shell game. So I decided perhaps the trading environment was not for me. That maybe I would be better in the boring world of water. So I transferred across the street to what was now Enron's brand new water subsidiary, Azurix. Rebecca Mark, who was now *Fortune* magazine's 14th most powerful woman in the world, was heading up this company. She had corralled the most innovative people over at Enron to play in a world in which none of us had any experience. We went out at an IPO of $19 based on the Enron brand, not because we were worth it.

In about a year, the stock went from 19 to 12 to 4. In a mini episode of Enron, we watched as this company basically sank like the Titanic. I would discover in yet a new innovative manner of now trading water and water rights and shipping water from Alaska down to California, that we would somehow create the new dot-com innovation of creating a trading platform in the e-commerce world. I would discover that Rebecca's brand new husband--remember the 14th most powerful woman in the world, that her brand new husband—was committing espionage by stealing trade secrets and selling them back to Enron.

When I went to my supervisor, he said, "You know what? We need to get you out of here. We're going to send you out to Portland, OR. to trade power." Within a week, I realized that there was such gaming of the system that I could not play in that world. What I had seen in the summer of 1998 was amplified 1,000-fold. Now ultimately, Tim Belden and Jeff Richter, who I worked with, have now been indicted and pled guilty.

So I went back to Houston, and I discovered, in fact, that Rebecca's husband had not only stolen trade secrets from Enron, but in 1980, he had pled no contest for stealing exploration maps from Shell. So I went to the head of public relations and I said, "We have a bit of a problem." She said, "What is that?" So I laid it out on the desk, all of the evidence that I had about this company. And she said, "Let me talk to Rebecca, and I'll call you back." About 15 minutes later, my phone rang, and she said, "I want you to go on the Internet, and I want you to go remove every reference to Rebecca's new last name." And I said, "What about the EDGAR filings?" She said, "Unfortunately, those are public record. We can't do anything about it."

Now during this time, I had become personal friends with Rebecca Carter, who is now Jeff Skilling's wife, but she was also the chief controls officer of Enron. So I had an opportunity to confront Jeff Skilling about this. I said, "Among other things, Jeff, I have just discovered that Enron is accepting very high levels of CO^2 into the gas pipeline, which if left undetected, will ultimately rupture the integrity of this pipeline, and people will lose their lives." He said, "It is none of your concern."

So, I, in fact, decided that maybe I should just lay low and do as I had done for the last 2-1/2 years, which was to choose to look the other way. You see, I am no different than the other executives at Enron, and the other employees that chose to look the other way for the financial benefit of stock options, for which I have been deeply impacted for the rest of my life. Because nowhere in my mind did it ever cross the point of consciousness where I said, "Some day I will be responsible in some manner for the downfall of our capital market system."

I finished out my last six months at Enron at the broadband market, where we would now trade broadband like potatoes. We would trade the capacity on the fiber optic network that is currently in place in the United States, so I joined the competitive intelligence group, where we would determine what the potential was for the broadband market—of which there was none.

So I went to Jeff Skilling and said, "There is no potential for broadband, certainly not what you are reporting in the news. And he said, "Oh, yes, there is. Just look at the markets."

So I went to the head of accounts payable and had a casual conversation. She said, "You know I'm having the same problem." So, in an all-employee meeting, she said to Jeff, "Where are you getting your numbers?" He said, "These are the numbers I was given." And she said, "No, you weren't, because I give you those numbers." He dismissed her the way he dismissed everybody else who was willing not to tell the story that he wanted to tell.

The problem is that while those of us inside the organization understood what was going on, the outside world was telling us we're the most innovative company! For six years in a row we would be named most innovative company, which said to those on the inside, we were damn lucky to have such a position.

There are a couple of things that raised questions for me and I've continued as I've spoken over the years to kind of understand what went wrong. How did this happen? Because I know what role I played, and I was right along with 20,000 other people. But as I said, it's not just Enron any longer. Part of it is, how many of you have heard the term, "Do the right thing"? All of us try "do the right thing." As we begin to look at the right thing for each of us, it's difficult to talk to determine under any certain circumstance.

In fact, I don't believe it's an issue of right versus wrong. I think most times it's an issue of right versus right. Let's take a look at Enron's vision and values. Enron's vision and values: respect, integrity, communications and excellence. For those of us inside Enron, this was the motto by which we lived and breathed. The problem is that the fiber of the organization didn't support these values. They looked great on the wall, but none of us lived by them.

Interestingly enough, *Fortune* magazine, in many of its lists that it promotes, one of them is the Most Admired Company. Do you know that in order to be the most admired company, you need not even be trustworthy? But what's interesting is that Jeff Skilling would pronounce after the film that you just saw that launched the vision and values, he would say that "We have found that companies that have a written vision and value statement have a far greater return on investment than those that don't." This said to me, "We're nothing more than self-serving individuals with empty values." But interestingly enough, as you will see, I'm not alone in my belief. This is not about a few good men. This is about 20,000 people who went to work, for the most part, to do the right thing and suddenly found themselves in a situation where it was not right versus wrong but right versus right.

You might ask yourself, where was the board of directors? Where was the board overseeing Enron, and of course, we've seen the criticism. Let me show you what Enron's Board saw. These are the calls to Enron's "1-800" number. Enron's calls came into Rebecca Carter, Jeff Skilling's wife. I don't know whether you believe they ever made it to the board, but this is from a board presentation. The increase in calls between 2000 and 2001 was dramatic. Interestingly enough, in a moment of desperation, the week before I left Enron, I called Enron's 1-800 number and the employee assistance program and I said, I need help. I've just been diagnosed with a potential breast cancer, and they told me to remove all the stress in my life. Let me tell you about my stress—because the doctor said the first thing that needs to go is your job. The woman said, "Ma'am, I'm sorry but inasmuch as our fees are paid by Enron, I can't take your call. You'll have to hire a private lawyer." Interestingly enough, the day after Enron imploded, I reported on, in fact, this information.

I had evidence of bank fraud and espionage and I went to the government, to Senator Byron Dorgan who was the head of the Energy Commerce Committee. I said, "I have evidence of bank fraud and espionage on the part of Enron, what do I do?" His intern said, "Send us an e-mail." I said, "Do you read them?" He said, "Well of course, we do." So I sent him an e-mail. I have my phone records. I have my e-mail records and yet to this day, the government denies that I ever contacted them.

We have found the same frustration outside the organization as we found inside the organization. But interestingly enough, it was obvious to those willing to look outside the organization that, in fact, Enron was manipulating its earnings. On May 5, 1998, a group of graduate students from Cornell University posted a report on the Web that said, "According to the Beneish model, Enron may be manipulating its earnings and recommended to sell Enron stock. For those of you that weren't fortunate enough, you could have read it in the CEO shareholder letter. In fact, it reported that Enron had $1.3 billion dollars in earnings; but the fact was, according to Arthur Andersen's audited financial statements, it was only $979 million.

The fact remains that all of us were willing participants in this. The banks knew it, and in the end, Enron was insolvent two years before they filed for bankruptcy, and they were doing what many of us do: cash management. They were borrowing from quarter to quarter to quarter and the banks were so willing to do it because they were getting paid huge fees. Let's see what Mr. Buffett has to say about this.

Warren, who, as you know, has become an icon. He says in an interview in a book called *Do Business With People You Tru$t: Balancing Profits and Principles* that the fundamental problem is that most CEOs don't understand their business nearly as well as those outside the business or even the employees inside the business. I would gather that most CEOs of companies don't understand their business as well as you do. Your position and your role is going to become ever so important in our society because we cannot keep up with technology. The human mind and human ethics will never keep up with the paper trail of electronics. There is no way.

I want to show you an example of a communication company in Denver, Colo. It operates in 14 states and, as it turns out, my husband works for this company. It's called Qwest. Qwest, for the last year and a half, has not filed an annual report with the SEC and remains trading today on the New York Stock Exchange. This is what happens when a company doesn't listen to their customers and doesn't listen to their employees; they go out and find a forum where people will listen, and it becomes public record.

In fact, this is probably the greatest example that I have seen of people desperate to find answers. This should never go outside a company. This is something that should remain inside a company.

With Sarbanes-Oxley, as a result of Enron, we now have a Section 301(4) a and b, which require companies to not only receive information from employees, retain that information, but also treat the problem because certainly, as we saw, Enron was receiving reports. I don't know that they were retaining them, but certainly were not treating the problem that had become across the board a cultural issue.

You can see, in fact, here's a person who is looking for somebody who can help her file a claim for whistle blowing.

This isn't again about a few good men or a few good companies. But let me show you what Qwest said about this. They said, "How dare you! How dare you post this on the Web. You know, we try hard. We do our best. You don't give credit to the employees who are working hard. And you will cease and desist."

Now it seems to me that, what they're saying is just don't talk about it. If you don't talk about the problem it will go away. Well, as we saw with Enron, there were certainly plenty of people talking about it. No one was listening. And yet the problem didn't go away.

Let's talk about reputation risk management, because actuarial sciences, as I see it, is really a service industry. It's intellectual capital. In my mind this represents kind of the same thing. This is Clifford Chance. Clifford Chance happens to be the world's largest law firm. What you will find is that they have 350 junior associates, at least in the United States, I believe. Thirteen of them decided to meet the stringent billing requirements, it required that they pad their bills. So they sent a memo to senior management. Senior management did nothing about it. So they leaked the memo to the press.

Let's take a look at Coca-Cola. Coca-Cola to me is an icon. It's like General Motors and apple pie. Coca-Cola decided about four years ago that they wanted to have frozen Coke in all of the Burger Kings, like Slurpees. And do you know what Burger King said. *It's not on our radar screen. We don't have a reason to have frozen Coke*. And Coca-Cola said, *we'll prove to you that, in fact, there is a demand. We're going to pay for a market study.* So they paid for a market study and, lo and behold, the results didn't come out the way that they had hoped they would. So they altered the results. They never told Burger King. Finally, somebody has to pay for these frozen Coke machines, and it hit the financial books about three years later. And the young accountant whose family had been with Coca-Cola for 75 years (he had been with the company for 11 years) his name is Matthew Whitley. He went to the chief operating officer who took his e-mail of concern and blasted it to 35 people in the company. He was quickly fired. He asked for his job back and they said no. So he sued them, and it became public. They had to restate their earnings. They are now under investigation by the SEC and the Attorney General for the state of Georgia. In that time they lost $15 billion dollars in shareholder value in three weeks.

We are now in an era of transparency, like never before. Because what is more important than anything else is that you are now required to have a confidential reporting system inside the organization. Now with my legal background, the first thing I say is, I want to see those reports. So suddenly all your dirty laundry is going to be aired when the class action lawyers do a request for production of documents.

We have to begin to treat the cultural problems that exist inside organizations. In fact, what we see is that they're saying that inasmuch as employees may be reticent, they are not suggesting that this be open only to employees inside the organization, but to your customers, to your vendors, to your shareholders. Everyone should have the opportunity to report to the company what is going on.

What we want to take a look at is the issue of whistle-blowing. I cannot stand that word because what it represents is disgruntled employees who have an axe to grind. Most whistle-blowers fear two things: 1) complacency or 2) being fired—neither one solves the problem. We ought to realize that there is a certain element about our society where people will choose not to stand up. That's normal. But when the whole culture inside your organization no longer stands up, eventually an unethical environment, like a cancer left undetected, will ultimately metastasize and kill the body. We've seen this in the news.

We should recognize that whistle blowers, for the most part, are those who have hit their threshold of pain and can no longer deal with it. So they turn to leadership in a need for help.

But as we're seeing now, again, this is not about Enron. This represents only about one-third to one-half of the companies that you read about every day in the news. In one form or another, they have either manipulated their earnings or they have been caught in an accounting scheme, fraud or trading situations.

The question that we all have to ask ourselves is who do we turn to when we're in a situation where no one will listen? Quite frankly, I think that we all should get Neil's number, because I think that Neal has just self-appointed himself to be our conscience and maybe we should nickname him Jiminy Cricket—you know—let your conscience be your guide.

I've heard the terms integrity, honesty, openness, transparency; the question is, what does that mean to each of you? Because in my world, inside Enron, "integrity" meant protecting the company. "Honesty" meant communicating with my boss. "Openness" was discussing it with other people. And "transparency" was writing a memo to communicate in writing that I had discovered bank fraud. None of which helped Enron from failing.

The other thing that I heard is that "Every one of us is all of us". The thing about the actuarial science that I have seen is that boring is good. Boring is really, really, really good. Greed is not good. Despite what Michael Douglas said in "Wall Street," boring is good, and in fact, Walgreens in their annual report states, "We are a boring company." But if you had invested in Walgreens and invested in G.E. at the same rate, you would have had a two-fold return with Walgreens over G.E. You don't see Walgreens on this list, and quite frankly, some day you will likely see G.E.

The question that I have to ask is, as Barbara mentioned, if you saw your neighbor tapping into the cable system or you saw them padding their insurance claim, would you trust them with your financial information? My question would be: Would you report them? Because I believe we have to ask: Is there a little bit of Enron in all of us?

I'm going to show you a film now, a couple of clips from a movie called *Vertical Limit,* and I want to set the stage. This is a father and his two children, and they are rock climbing. They're faced with a difficult decision of right vs. right. Followed by that clip will be what happened at Enron when you refuse to listen to those around you.

I called up a gentleman who had written in to *Fortune* magazine shortly after the Enron thing because of what he had written in *Fortune* magazine. And he said, "You know, you really need to talk to my son." And I said, "Really?" He said, "He has captured a way to determine the makeup of an organization. He's written a book called, *The Adversity Quotient*. *The Adversity Quotient* determines that there are basically three types of personalities in every organization. There are climbers, campers and quitters. Climbers are those that will climb to the top of a mountain with no consideration of the conditions or those providing them with a warning. They refuse to heed that warning. Campers are those who, in the face of adversity, will hunker down and be loyal to an organization. And the quitters are those that refuse to sell their soul for the financial benefit of stock options.

When I entered Enron in 1998, I was a climber. I had grown up as a competitive ice skater, and every day for 12 years, I spent on the ice, falling and getting up, falling and getting up. Quitting for me was not in my makeup. But when I discovered bank fraud, espionage, the manipulation of power prices, I became a camper. Because at the end of the yellow brick road, there were financial rewards. But for Tim Belden, who manipulated power prices, the financial benefit was a $5 million dollar annual bonus. So where was his motivation not to game the system when he's getting paid $5 million dollars to game the entire California power price market?

But in the end, I became a quitter. When I was no longer willing to look the other way and chose to leave the organization, signing the confidentiality agreement. By leaving the organization and remaining silent, I allowed the organization to remain in denial about what was really going on. Now ultimately, I went to the government, who refused to call me back, but the key as we go forward in our risk management in organizations, is no longer what I call the hard issues. They are not the things that you can necessarily objectively measure, but they are the things that you will subjectively measure from this point forward.

They will be things like: What is the makeup of our organization? How many campers, climbers and quitters do we have in this organization? I can tell you that Enron was about 90 percent climbers. So if you have an imbalance of climbers, you will climb at all costs. And the voice of those that are saying, "Wait, the winds have turned," will fall on deaf ears.

The point is that today 10-20 percent of our society will always seek to do the right thing. Ten to 20 percent will always look for the loopholes. It is the 60-80 percent in the middle that can be influenced one way or the other. The key is do not work for a company where the influence is to look for the loopholes. Do not do business with a company that chooses to look the other way. It is our personal responsibility as a society to no longer reward or support companies that do that. Only then will we have no more Enrons. No longer look the other way when someone pads their insurance claim. And we've all heard that old adage, "Choose your battles."

The problem is that most of us don't look beyond our small little world to say, "What is the impact of this decision, should I choose to look the other way and choose not to speak up?"

So in closing, as I mentioned to you, I grew up as a competitive ice skater. I went on to do work with my coach who was the United States Olympic coach in visualization for professional athletes, and, in 1992, wrote a book about it called *SportsVision*. So I consider myself somewhat of an expert, and I'm going to ask you to close your eyes for a moment. I'm going to ask you to imagine the person in your life that represents the person that would always take the highest moral ground, who no matter what the adversity is, will always do the right thing. In a moment of choice, you would turn to that person and you would say, "What is the right thing?" My question for you is, is that person you? And if not, why not? Thank you very much.

MODERATOR: We have very few minutes left if you'd like to ask a question of Ms. Brewer.

FROM THE FLOOR: I would love to not do business with companies that look the other way, but how am I supposed to identify those companies?

MS. BREWER: This is the single most frequently asked question. Do I know any companies out there? It just so happens that I have the good fortune of knowing at least one company and that is SAS. It is the world's largest privately held software company in the world, which raises an issue. You need to look at an organization and see if it is a cultural corruption or whether it's an isolated situation. Because of course, many of the companies that we read about that are now on my wall of shame, have been subject to a few good men who have chosen to go outside the Code of Conduct. In fact, Jeff Immelt, who is the CEO of General Electric, says in his annual shareholder letter that is the one thing that keeps him up at night, is that a few would choose to violate the Code of Conduct for their own benefit. So I think it's an important thing that we not throw the baby out with the bath water. But there does come with being publicly traded challenges, unless of course, you're like Warren Buffett, who operates like a privately held company because his stock is so enriched.

FROM THE FLOOR: In spite of all the negative reactions to these corruptions that have happened in the last few years, the stock market continues to punish people and punish companies that report volatility in their earnings. In other words, honesty is punished. Can you comment on that?

MS. BREWER: Yes. I think that's a very important thing. In fact, that is one of the reasons that I started the organization that I did called the International Society of Ethics Examiners. I believe that companies that are, in fact, honest and try to do the right thing are being punished like everybody else. I think that we have to begin to isolate the problem here as best we can. We have certain companies like Dennis Kozlowski who throws a week-long party for his 40-year-old wife that should not be in the same category as Walgreens. I think what you've seen is society reacting.-- Even the blue-chip firms are now suspect because this is not about accounting schemes. This is about the integrity of trust. It is the sustainability of our trust; it is the standard of our trust. And you only have to be married about six times and get burned before you say, you know, marriage isn't for me! So I think that you begin to ask: At what point am I going to get back in? And that's why you begin to ask questions of those companies that you invest in. You ask what their reporting mechanism is That would be my first question before I invest in any company. What is your internal reporting mechanism? Currently, there are three companies out there that have internal reporting systems that are the premier. There are two of which that have been in business for probably 15 years that offer a hotline, a simple "1-800" number. They then have to transcribe the information, they put their own interpretation on it and they then report that to the company. They assign a pin number, you call back in two weeks. With the speed at which deals are done today, that won't work. The third company is called EthicsPoint. EthicsPoint has a Web-based system in addition to a hotline. With this Web-based system you can have real-time chats. You can get on, and it's all confidential. I mean you do have employees who are afraid to use that hotline. So, it's important that we begin to embrace those inside organizations, but the very first question I would ask before I'd put my money in the market at all is: What is your reporting system? Because that is the eyes and ears that is going to keep that company sustainable.

MODERATOR: We have time for one more question. The organizations you founded now, can you just tell us briefly what's happening with that?

MS. BREWER: I am working with ethics professionals, legal professionals, accounting professionals and actuarial professionals to establish the protocols for an ethics examination. It's going to look at all the subjective kinds of things. We're looking at not developing a standard here as much as we're developing an entire industry that does not currently exist. It's bringing together all of the supporting professionals to make sure that it doesn't lose ground and we will embrace those models and those protocols that have already been developed. The big one is going to be this moral risk or cultural risk and how you assess that.