

1987 VALUATION ACTUARY
SYMPOSIUM PROCEEDINGS

ETHICS AND THE VALUATION ACTUARY

(LUNCHEON SESSION)

MR. MANUEL M. DAVENPORT: Professional ethics is a branch of ethics which is a subdiscipline of value theory which is a problem-area within philosophy. Thus, to understand the term "professional ethics," it is necessary to understand "philosophy," "value theory," and "ethics."

The ancient Greeks coined the term "philosophy" around 250 BC by putting together two older words, philo and sophia. Very loosely, philo means "to love" and sophia means wisdom, so a "philosopher" is "one who loves wisdom." The Greeks, however, had three words for "love" and at least two for "wisdom." It is instructive, therefore, to determine the reasons they selected these words. For "love" they could have picked "eros," which we know as erotic love, the kind of love that seeks to possess what is loved, or they could have picked "agape," the term that St. Paul used to describe the kind of love Christians should have, a love that seeks to improve what is loved. They did not, however, because as philosophers they did not seek to possess wisdom but to share it and, certainly, they did not believe that wisdom could be improved upon. For "wisdom" they could have picked gnosis rather than sophia. They did not because gnostic wisdom is knowledge used to control and predict, and as philosophers they were interested in something more fundamental than practical wisdom. Philosophers picked philo because it means "contemplative

love," -- the kind of love one has for a beautiful sunset or a snow-capped mountain. We neither seek to possess nor hope to improve such objects but simply love to be lost in wonder as we contemplate them. The ancient Greeks selected sophia because it means "knowledge concerning the fundamental questions." Every other discipline except philosophy makes certain assumptions which are not and cannot be questioned. These assumptions are: (1) There is something real that we can experience; (2) Some of our experiences provide us with knowledge; and (3) some experiences are more valuable than others. When philosophers question assumptions about reality, we call that activity "metaphysics." When they question the possibility of knowledge, we call that activity "epistemology." When philosophers raise questions about values, that is the problem-area we call "value theory."

A philosopher is one who loves to contemplate questions about the nature of reality, knowledge, and value not because he wants to change or control what is, but because he finds joy in "the adventure of ideas." Philosophers are, much like mountain climbers, who climb not because they want to live on mountain tops but because they enjoy climbing.

One important subdiscipline of value theory is ethics. Ethics concerns the attempt to determine which human actions are right, and thus should be performed, and which are wrong, and thus should be avoided. Ethical theories are simply definitions of right and wrong

actions. In the history of Western philosophy, dozens of such definitions have been proposed, but all of them are of two types. We call definitions of the first type "result-oriented," because in these definitions a right action is one that leads to a good result, and if we advocate this type of theory, we now have to define and defend a good result. We call definitions of the second type, "rule-oriented," because in these definitions a right action is one that conforms to a certain rule, which, if we go this way, we must specify and justify.

For purposes of illustration I will use the two most popular ethical theories in Western philosophy. As an example of a result-oriented theory, I will use "Utilitarianism," which defines a right action as one that makes possible the greatest quality of happiness for the greatest number of human beings. As an example of a rule-oriented ethical theory I will use the "The Ethic of Duty," which defines a right action as one that conforms to The Golden Rule. In many cases these two theories are in harmony. For example, should I poison the drinking water of the city of New Orleans? No, to do so will not contribute to the greatest happiness of the greatest number, and no, I certainly would not want someone to poison my drinking water.

But all too often these two theories conflict. For example, should we use artificial birth control methods to prevent overpopulation? Yes, to avoid the agonies of famine and provide a better quality of life for those now alive we must limit population increases, and no, my father was the 13th child and I could not wish that my grandparents had

used an artificial means of birth control. My point is that different ethical theories can lead to different ethical judgments so before you select one find out where it leads.

If you are careful and select an ethical theory that suits your conscience, why then would you need to consider professional ethics? Why, in other words, would you need a special code of ethics for the practice of your profession? Why can't you just apply your ethical theory directly to whatever ethical problem arises in your professional life?

First, in addition to a general ethical theory, as a professional you need a special code of ethics simply because you are a professional. To be professional means to be a person who has acquired training and knowledge approved as adequate by fellow professionals and who has ethical responsibilities to clients stated and enforced by fellow professionals. For most professionals these ethical responsibilities prescribe duties to the public, to the profession and to clients. Second, a special code of professional ethics is needed to make members of the profession aware of its ethical problems. Professional codes of ethics are developed over many years by those in the profession who have learned the hard way what ethical problems to anticipate and how best to deal with them.

You may be convinced that professionals do need written ethical codes but still wonder why each profession needs its own separate, distinct

code. Aren't the ethical problems faced by all professionals basically the same regardless of the particular profession? No, they aren't and the reason is that the relationship between a professional and a client differs from profession to profession according to the kind of service the client seeks and the kind of service the professional is qualified to provide. Physicians make life and death decisions but do not vary treatment according to their clients' intelligence. Teachers don't make life and death decisions but do vary service according to intellectual capacity. Teachers and physicians alike serve clients face to face, but we all prefer that the police and military serve us as far away as possible. For these reasons the critical ethical problems vary from profession to profession and in many cases these problems are rarely encountered by those outside the profession. Each profession, therefore, requires a special code of ethics that focuses upon its own unique ethical problems.

Professional ethics is that branch of ethics which attempts to provide for each profession a special code of ethics which will allow its members to apply general ethical theories to the ethical problems encountered within each profession. Moral integrity demands that we do not arbitrarily change our basic ethical positions, but because professional practice must constantly adapt to new techniques, new social conditions and new ethical problems, our codes of professional ethics cannot be set in stone but must be subject to periodic revision. It is quite difficult, then, if not impossible, to study or even talk about professional ethics in general. Each profession has unique

ethical problems and each is changing at its own pace, so to consider ethical problems in professional practice we must consider problems within particular professions.

By way of conclusion and in order to provide a specific example of a problem in professional ethics let's consider some potential ethical problems which might be faced by professional actuaries. According to The Guides To Professional Conduct of the American Academy of Actuaries, the professional actuary has duties to clients, the profession and "the world at large," and in discharging those duties the professional actuary must avoid conflicts of interest. It is inevitable that the interests of clients and the public, the profession and clients or the public and the profession will sometimes be in conflict. Thus, to resolve such conflicts the professional must know which duties have priority. Are duties to clients more important than duties to the public? Are duties to the profession more important than duties to clients? The Guides To Professional Conduct provides no clear statement of the order of priority among duties to clients, to the profession and to the public, and this in itself constitutes an ethical problem for professional actuaries.

I will assume, for the sake of argument, that in practice actuaries put duties to clients first, to the profession second, and to the public last. If this is correct, then actuaries will be subject to ethical criticism from Utilitarians. Utilitarians seek the greatest happiness of the greatest number and therefore, give highest priority to duties to

the public. They would insist, therefore, that actuaries should use mortality tables with the lowest rates and use data showing the highest rates of return for insurance companies. They would insist, also, that actuaries should use cost disclosure methods that would make it easy for the public to accurately judge the comparative costs and benefits of insurance products.

In order to defend the actuarial profession from ethical criticism from Utilitarians, it is necessary to see that putting the client first can be justified from the perspective of The Ethic of Duty. By this ethical standard the actuary is obligated as a professional serving clients to do for them what he himself would expect from a professional if he were the client. Thus, if you were a client and expected actuaries to help you make maximum profits, then the professional actuary is obligated to help you make maximum profits. However, and here is the tough ethical question for one who follows The Golden Rule, am I obligated as a professional actuary to engage in practices that harm the public in order to help my client maximize profits? If I assist or encourage my client to misleading or cheating the public, I may be doing what my client wants, but this may not be what is best for my client in the long run. So the question becomes: In serving my client shall I do what my client wants even if in my professional judgment this is not what is best for my client in the long run? The proper answer, I believe, is obvious but not easy to follow?

As a professional who puts duties to clients first, you are obligated to

do what in your professional judgment is best for your client in the long run, because this is what you would want from a professional if you were the client. If this is not what your client wants, and you cannot convince your client to accept your judgment, you are obligated to discontinue your services because continued service under such conditions cannot be consistent with The Golden Rule and professionals who let themselves be dictated to by ignorant and immoral clients are truly endangering their profession and the public and in the end destroy both themselves and their clients.