

**1988 VALUATION ACTUARY  
SYMPOSIUM PROCEEDINGS**

"ALIVA" IN WONDERLAND

(A LIFE INSURANCE VALUATION ACTUARY)

MR. J. DICKSON CRAWFORD: At least a few of you must have puzzled over the title for these remarks. Let me tell you how it came about.

I had agreed back in June 1988 to speak to you and immediately left for the International Congress of Actuaries in Finland, without giving a further thought to what I might say here.

About two days into the Congress I received a telex from my secretary saying that the Society of Actuaries office *had* to have a title for my speech *fast*. The telex also said that the expected subject area was ethics and credibility. The task then became how to dream up a title that allowed me maximum freedom and wasn't as ponderous as "a dissertation on ethics and credibility."

ALIVA was the closest acronym to Alice that bore some relevance to this audience. On later reflection I realized that ALICIA is far more appropriate as it encompasses A Life Insurance & Casualty Insurance Actuary. However I didn't have a chance to improve on

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it before publication. If the casualty actuaries will accept this feeble explanation and apology, we shall press on.

The deeper source of the title came from a company management meeting in May 1988, when listening to a very good speaker on the subject of change. Her opening was a question which she also had asked a number of similar groups:

What is the game or sport that is closest to your situation in business today?

The quick answers from the group were all contact sports -- pro football, demolition derby, and a big cheer for roller derby. She said that one response that fascinated her was -- the croquet match in *Alice in Wonderland*. Let me quote from its text:

Alice thought she had never seen such a curious croquet-ground in her life: it was all ridges and furrows: the croquet balls were live hedgehogs, and the mallets live flamingoes, and the soldiers (who were playing cards) had to double themselves up and stand on their hands and feet, to make the arches. Alice soon came to the conclusion that it was a very difficult game indeed, and expressed her frustration to the Cheshire Cat.

"I don't think they play at all fairly. They quarrel so dreadfully one can't hear oneself speak -- and they don't seem to have any rules in particular: at least if there are, nobody attends to them -- and you've no idea how confusing it is all the things being alive: for instance, there's the arch I've got to go through next walking about at the other end of the ground -- and I should have croqueted the Queen's hedgehog just now, only it ran away when it saw mine coming!"

## ALIVA IN WONDERLAND

Do you feel like Alice, trying to impose reason in situations where the ground rules are constantly changing, the demands are shrill, and the expectations of different stakeholders are in conflict? If you do, then you face the essential dilemma of a professional: how to act in a sound and ethical manner and how to maintain credibility among the various groups who use or are affected by the results of your work.

At the 1987 Valuation Actuary Symposium in Dallas, Manuel Davenport set before us a theoretical basis for identifying the framework of an ethical decision. He said that ethical theories are simply definitions of right and wrong actions and that the definitions can be classed into two types: result-oriented definitions and rule-oriented definitions.

He asked us to consider individually our personal value system and what order of priority we would place on duty to clients, duty to the profession, and duty to the public. The problem with any array of these theoretical guides is that different actions may be indicated by different guides, and it is hard to know which one to choose.

Another author suggests that between any set of basic guiding statements and an ethical decision lies the area of prudential judgment. It is here that the individual attempts to reconcile or choose between the guides in the theoretical framework.

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Each professional must be familiar with the code of ethics of his profession. The code will include reference to some of the primary norms and may also include statements which tell the professional how to behave in a specific situation.

On the issue of setting priorities between the competing interests involved in a professional decision, the professional codes may be explicit or may be silent.

While the American Academy of Actuaries code is silent, the guidance note to the appointed actuary in the British Institute is not. It says:

The profession's rules of conduct make it clear that every actuary acting in his professional capacity, whether remunerated by salary or fee, has a duty to his profession and his responsibility to his principal must be consistent with this. The appointed actuary is, however, in a special position in that:

- a) he is appointed and remunerated by the company, and at the same time,
- b) he has responsibilities and obligations to the Department of Trade and Industry by reason of his statutory duties, which arise from the Department's supervisory functions aimed at the protection of policyholders.

It is seldom that these two aspects of his appointment conflict. If they do, however, it is the duty of the appointed actuary to advise the company as soon as he is aware that a course of action is being followed which seems likely to lead him to withhold subsequent certificates in the normal form. It is also his duty, if the company persists in following such a course of action, to advise the Department of Trade and Industry, after so informing the company.

In Canada, a committee of the Canadian Institute of Actuaries is working on a professional standard describing the responsibilities of the valuation actuary. I hope that it will deal explicitly with the dual role of the valuation actuary.

These codes of ethics set a framework but will not fully prepare the actuary for the decision he or she may be called on to make in a particular situation. First of all, for the new professional it is hard to identify an ethical dilemma. One way to help each other would be to prepare and share true case studies of ethical dilemmas put together by the more experienced members of the profession. The purpose should be to illuminate the issues and stimulate awareness and thought among the participants. This has been tried successfully at many actuarial meetings over the years. I submit that it is *as essential* a part of these meetings as the sessions on techniques of valuation, risk analysis, and scenario testing.

I would add that the distillation of the best of these debates, among valuation and all other actuaries, should feed the curriculum of the Fellowship admission course that is now being developed.

A final tool for preparation to decide these ethical dilemmas is to build a small network of professionals whom you know and trust, to whom you can talk frankly and openly,

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without recrimination and without damage to your clients' interests. As you meet people and listen to speakers at meetings like this, you should be trying to identify and develop a connection with people who meet these criteria. This is the mutual support which is the fraternal dimension of a professional organization, and which brings both joy and value to those who have shared it.

The other subject that I want to touch on is credibility. This includes credibility with (i) top management of the company, whether the actuary is employed or in a consulting role, (ii) the directors, and (iii) the regulators. The actuary must have basic credibility because both the regulators and company managements agree that the position of valuation actuary must exist and are seeking help from the actuaries in the critical issues of sound management and supervision of the companies.

What are the qualities which enhance credibility, and what are those that cause a lessening of confidence in the actuary?

The first and best way to improve credibility is to build the foundation of knowledge and practice in valuation work and problems. The C-1 to C-4 Task Forces, valuation technique papers, development of applied tools for scenario testing, research into surplus levels and solvency matters are all examples of progress. The individual actuary's judgment will be exercised within a better framework of professional guidance.

Further the opportunity to discuss this growing body of material at meetings like this will widen the scope of actuaries' knowledge by allowing them to share their experiences with others. Actuaries will then be able to speak with more conviction and confidence in their own work.

However this is not enough. The valuation actuary's position within an organization must enhance his credibility. When a consultant to the company, the actuary must have access to the Chief Executive Officer (CEO) and other top officers and must have free and open communications with key people in functional areas.

When a full-time employee of the company, the valuation actuary must have political clout by reason of his title and level in the organization. He should be the most senior functioning actuary in the company. Even if he does not directly report to the CEO, the actuary must have direct access to the CEO and must use this right and privilege to establish an easy relationship with the CEO. Both the CEO and the valuation actuary should be comfortable enough with each other to share doubts, worries, possibilities, risks, and opportunities in an informal and unrecorded setting, totally apart from the formal, recorded management processes.

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To enhance his credibility, the actuary must be prepared to accept risk. What a peculiar thing to say to people whose stock in trade is the business of risks! The actuary should not be perceived as wanting to avoid risk totally, as always putting some hidden conservatism in his work above a reasonable level. This perception creates the mysterious, black-box mentality about the valuation actuary and his methods.

The valuation actuary must remember that he is an advisor to management to help in making sound financial decisions. He has a unique certification role for reserves, but his function for many other things such as surplus levels is advisory, not authoritative. As I said to the Canadian Institute of Actuaries in June 1988, you must remember the valuation actuary is the navigator, and he must not usurp the position of captain of the ship.

Credibility is enhanced or ruined by the communication skills of the actuary. You must be forthright in your communications and present issues in clear language that your audience can understand. Take time to think through your communications plan, your illustrations, your explanations. If this is not your natural skill, get help with it from professional communicators in your company or outside. Use language in its common form, not in the specialized meaning assigned for technical purposes. How long will it be before we as professionals know what *reasonable* and *plausible* mean? How much longer will it be before anybody else can understand them?



"When I use a word," Humpty Dumpty said in a rather scornful tone, "it means just what I choose it to mean -- neither more nor less."

"The question is," said Alice, "whether you can make words mean so many different things."

"When I make a word do a lot of work like that," said Humpty Dumpty, "I always pay it extra."

Had Humpty Dumpty been an observer of the modern life insurance scene he would have loved the word *earnings* -- what a lot of work it has to do! Sometimes it is statutory, sometimes it is GAAP, sometimes it is internal adjusted. What it *never is* is "generally accepted" and the people in "Wonderland" spend a great deal of time and money explaining it to each other.

To sum up, throughout all this we have been talking about the desirable but elusive quality of "character." One writer (from the Royal Bank Letter, Royal Bank of Canada, Vol. 69, #3, May/June 1988) says:

"The concentration of mind and spirit that must go into the making of character explains why it is frequently equated with quality. It is like the work of a fine craftsman -- a manifestation of diligence, care and self-respect."

There is a role for the profession as a whole and a role for each of us as individuals in creating a performance record of sound and ethical behavior and in increasing the credibility and esteem in which the position of valuation actuary is held by our several

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**publics. I am confident that you will build a record of high character as you perform the function of valuation actuary.**