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Professionalism in Actuarial Practice Including a Case Study with an International Perspective

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This is the third in a series of articles. Our objective is to highlight professionalism issues and make them directly relevant through (hypothetical) case studies. These issues are internationally relevant. In our first article (*International News*, January 2018), we discussed what professionalism is, and its focus. In the second article (*International News*, May 2018), we discussed professional advice. Here, we provide an overview of aspects of professionalism, and then move on to case studies.

We reiterate the crucial point that professionalism focuses on “how” we, as actuaries, conduct our actuarial activities, not the technical “what” of the outcomes.

Actuaries need to be committed to lifelong learning. Having achieved their initial qualifications, they need to continue to learn from experience and enhance their skills. Once they have their “actuarial driver’s license” they need improve as “actuarial drivers.” These skills include both technical (actuarial mathematics and models, etc.) and the wider and more interactive business skills. This second set of skills can be categorised, sometimes almost disparagingly, as “softer” skills. We suggest this categorisation is inappropriate and limiting. In a rapidly changing environment, where the pace of change is not slowing, actuaries need to be proactive, flexible and forward-looking.

Technical skills are a necessary condition for success. However, they are not sufficient. Professional behaviour is a sufficient condition for success, both as individual actuaries and for the actuarial profession. That is, becoming a good actuary requires both the technical skills and the professional skills. It is this combination that helps set the actuarial profession apart and supports it delivering good value to its clients. In this environment, ongoing professional education is at least as important as initial professional education.



These articles are based on a presentation made by the authors at the International Actuarial Association (IAA) Asia Subcommittee Regional Seminar held in Colombo, Sri Lanka, on July 14, 2017.

PROFESSIONALISM IS EVERYWHERE

We use the term “professionalism” in a broad sense. Professional skills need to be tailored to an individual actuary’s situation. However, the mix of skills changes as situations change; and as actuaries move through their careers, they need to continue to develop these skills. Some, like integrity and upholding public interest, are almost universally relevant. Others may be more tailored and nuanced. In some instances, such as taking a senior management career path, an actuary’s professionalism may become more important than their technical skills.

Professionalism skills are diverse and can be harder to acquire and quantify than technical skills. However, we can all look around our professional worlds and see some who we intuitively feel are good and trustworthy actuaries, with high standards and integrity, who clearly deliver value and insight to their clients, supporting them making better and more informed decisions. We also all know of examples to the contrary. A challenge is aspiring to be in the first group, while addressing our weaknesses when we stray toward the second group.

Consider the following table of topics to consider when delivering professional actuarial services. This highlights the ever-present need for professional behaviour.

Aspect	Technical	Professional
Do professional work with integrity, skill and care	✓	✓
Uphold public interest, and the reputation of profession		✓
Cooperate with others, but understand the role and need for confidentiality		✓
Recognise the need for competency and value of experience. When appropriate seek help and mentoring from professional colleagues	✓	✓
Conform to standards, statutory, professional and ethical	✓	✓
Take responsibility, provide clear and timely communication of results and their context (recognising uncertainty) to clients in language they understand		✓
Identify who your client is, their needs and their capacity. For professional relationships, trust and respect are key ingredients		✓
Manage conflicts of interest, both real and perceived		✓
When taking over services from another professional, get a clear understanding of the circumstances and prior work and concerns. If you are having service being taken over, cooperate fully with the new person.		✓
Compensation arrangements should be transparent and clearly disclosed. They should not lead to, or be perceived to lead to, biased advice.		✓
Be accountable for your professional actions and advice. Professional standards are there for a good reason		✓

THREE “GOLDEN” RULES

A short summary that provides some guidance on how to avoid or minimize the risk of professionalism issues coming up is to follow these three golden rules:

- **Know the client.** This includes thing like clarifying the scope and purpose of the task, understanding the business context of the task, and communicating with clients in their language.

- **Know your limitations.** This includes knowing what you can and can NOT do, where you may seek support, being clear with your limitations and reliances, and recognising public interest.
- **Know the law.** This includes (at a minimum) knowing your obligations and licensing requirements, including supervisory requirements, and applying all applicable professional guidelines.

CASE STUDY 2: CREDIBLE EXPERIENCE

The second case study we gave at the IAA regional seminar was the situation faced by Mary, the chief actuary at Good Life Insurance Company in Asia. She had recommended best estimate assumptions to be used in valuation and pricing based on results of her most recent experience study. The recommendations reflected both company-specific and industry experience, due to the lack of credible experience within the company. Mary was faced with resistance from senior management who felt the mortality assumptions should be less severe than Mary proposed, citing their experience in the industry, although Mary’s analysis suggested otherwise. An added complication for Mary is that she has also been asked to reprice an existing product more competitively. If she revised her mortality assumptions to the levels suggested by management, that would help that process.

Some points to consider include the following, with some reflecting audience feedback when the case study was presented at the IAA seminar.

- Mary and senior management need to be clear about their respective roles—in particular, who is providing expert professional advice and who is making the business decisions (and the consequences of senior management not accepting expert advice).
- Pricing and repricing is a broader issue than only mortality assumptions. This work should put the changes in mortality into context with other possible changes, including expenses, lapses and investment return. Sensitivities to changes should also be considered.
- Mary should ensure that her recommendations can be justified and defended. Her workings, data and methodologies should be checked. This may be a place for professional peer review.
- Mary should consider re-evaluating all the information available to her and be sure that she has considered all aspects of the problem, before disregarding the suggestion

of the senior management. Perhaps they have additional data to provide.

- How Mary communicates her reasoning and results would greatly impact the acceptance she receives from the senior management team.
- With regard to repricing the existing product, Mary needs to communicate to senior management which assumptions are locked-in and which are not. She should also be clear that the premiums she puts forward are recommendations, and it is management's role to make the final decision, subject to legal and regulatory requirements. Mary's recommendations inform the decision of management regarding expected profit margins and risks undertaken.

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CASE STUDY 3: ARE YOU QUALIFIED?

Sarah recently obtained her fellowship. She has just returned home after studying at a foreign university and then working for a year as an actuarial assistant in the valuation team at a global insurance company that focuses primarily on health insurance. Local insurance companies have always found it difficult to recruit qualified actuaries. Being one of the very few qualified actuaries in the country, Sarah has secured a job as the head of the actuarial team at a reputed local insurance company.

The CEO spoke to Sarah on her first day and indicated that there is an urgent need to develop a universal life product with a guaranteed return to take advantage of current market conditions. The CEO further said the company is extremely pleased that Sarah would be able to certify their products as being profitable and fair by policyholders and sign off on all documentation required by the local regulator in order to launch new products, and so they would no longer have to rely on external consultants.

Sarah has no exposure to universal life products, or long-term product development and pricing. However, she is concerned

that it would not be good for her career prospects if she admits that she is unable to complete her first assignment. After all, she is more qualified than anyone else in her team, although they have been working in the local insurance market for a long time.

What should Sarah do? Should she develop the products and sign off on regulatory filings? Should she admit that she does not have the necessary experience to certify that the product is sound, workable and fair?

Some points to consider include the following, with some reflecting audience feedback when the case study was presented at the IAA seminar.

- Sarah is in a difficult position. It appears expectations are not aligned and she does not have the skills and experience to professionally complete the task on her own. She should not pretend to possess knowledge and skills she does not have.
- She needs to realign management expectations to understand that being "qualified" goes beyond possessing a designation, and requires both technical skills and also having the necessary experience and relevant knowledge beyond the exam curriculum.
- In the short term she needs to find proactive solutions and consider how to get access to experience. This may, for example, involve finding mentors, continuing to engage external consultants for peer review, and developing her skills through her continuing professional education obligations.
- She can make it clear she wants to learn and develop these skills, so the company will have more resources in-house going forward. She also needs to get the backing of her team, who has more experience than her working with long-term products, although she is more qualified on paper compared to the rest of the team.
- Experienced actuaries face such situations all the time, when called on to work on new projects they have little or no direct expertise with. It may then be appropriate to collaborate with others who have complementary skills and experience to provide peer review and professional support.

We conclude with some observations:

- This case study shows the importance of being aware of professional obligations and taking steps to avoid getting into difficult situations in the first place. The CEO's comments suggest that Sarah's key problem is that she has

allowed unreasonable expectations to form. The situation would be much less uncomfortable and more manageable had realistic expectations been set initially. Prevention is better than cure (and cures can be painful to all involved if they become required).

- Part of being a member of a profession is having the support of that profession. Sarah should consider getting support from her professional actuarial association(s). Professional guidance can give valuable support to her in discussions with her management. There may be a process to provide experienced advice. Also, there may be a supervisory aspect as the supervisor may have experience requirements to meet. Individual actuaries are not alone as they have their profession to draw on for support.
- We are not suggesting actuaries should not take on new projects. This develops and transfers their skills to new domains, is often personally satisfying, and enhances the profession. We are suggesting that when they take on new projects they do it in a professional way and minimize the risks involved (both to themselves and to their clients). Transparency and disclosure may be important in this context. ■

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