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Professionalism issues

Caution urged in the emerging financial services environment

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In a recent conversation, a senior actuary and manager of a health care company observed that our merger-frenzied environment has led to at least one insurer owning a consulting firm. The manager wondered whether consultants such as myself were concerned about that. Further consideration of this question leads to the following observations:

- In some cases, the same parent owns both consulting firms and insurance companies.
- The insurance company might own the consulting firm outright, or it may directly sell consulting services. Many traditional insurance companies also sell some consulting services as part of their product offerings, but to their traditional customers rather than to competitors.
- Other businesses today, in this era of outsourcing, sell services to their competitors, including consulting services.
- Consulting operations, actuarial and otherwise, are part of many different types of organizations.

These situations are becoming more common in the emerging financial services environment. Multiple confidentiality and conflict of interest issues arise that can have significant impact on companies, actuaries, and the wider business world.

For example, a consultant may be asked to give advice to a competitor of some part of the organization for which the consultant works. The real or potential conflict of interest is fairly obvious when a consultant and insurance company are part of the same organization and the client is another insurance company, but conflict of interest issues can arise in many settings.

Another example is a consultant giving advice on a business issue to two or more organizations in the same industry, who are likely to be competitors. This can happen regardless of the ownership of the consulting firm. In the case of consultants giving core business advice, the clients may ask that the consultant work with only one firm in a given marketplace. For example, a health care consultant addressing marketing strategy might be able to work with only one hospital system in each local market. This is an issue normally sorted out during the engagement process.

Pertinent precepts

Several precepts in the Code of Professional Conduct, published in the *SOA Yearbook*, apply to these situations.

Precept 2, Professional Integrity: An actuary shall perform professional services with integrity, skill and care.

Precept 8, Conflict of Interest: An actuary shall not perform professional services involving an actual or potential conflict of interest unless:

a. The actuary's ability to act fairly is unimpaired; and
b. There has been disclosure of the conflict to all known direct users whose interests would be affected by the conflict; and
c. All such known direct users have expressly agreed to the performance of the services by the actuary.

Precept 10, Confidentiality: An actuary shall not disclose to another party any confidential information obtained through professional services performed for a principal (i.e., client or employer) unless authorized to do so by the client or employer or required to do so by law.

Commentary

In some cases, an actuary or a business consultant will need to decline an assignment because of a relationship with a competitor, whether it is an ownership relationship or simply another client relationship. Where the consultant's knowledge of one organization's confidential strategy and business plans would influence the advice given to another, such an assignment needs to be refused. These are situations where such knowledge goes well beyond general knowledge of the marketplace or public knowledge. In such a case, the fact that direct information about the competitor is not disclosed is not relevant. Integrity calls for not taking on the assignment.

In other cases, the actuary will feel that there is no conflict due to the nature of the assignment or the nature of the relationships. The Code of Professional Conduct provides guidance with respect to disclosure and confidentiality. An actuary should always appropriately disclose relationships that may be viewed as creating a conflict of interest. Once there is disclosure to all directly affected parties, then it is up to the parties working with the consulting actuary to determine their level of comfort. The confidentiality precept serves to protect the confidential information of each party if the assignments go forward.

Deciding what to do in situations like these requires careful planning. The beginning of an assignment might show no aparent conflict of interest, but this could change as time goes on. One needs to consider not only the initial assignment, but the prospects for change in the assignment moving forward. Extra caution is called for in, for example, an assignment that does not initially involve strategy but might move in that direction.

The relationships of different entities within a large organization vary a great deal. In some cases, actuaries who are part of large organizations function quite independently of other entities, and in others there are close ties. It is important for the professional who understands the relationships within his or her organization to exercise judgment in applying the Code of Professional conduct. In so doing, the actuary may need to consider reporting relationships, method of compensation, and how work is managed.

Situations similar to those mentioned above can arise in mergers, where one consulting organization might well represent multiple parties to the transaction prior to the business deal. Potential problem situations can be attended to by focusing on conflict of interest and confidentiality.

Other areas of conflict can arise when an organization represents both businesses and labor organizations, or businesses and individuals if the individuals are represented in matters of conflict with their employers. This does not imply that consultants should not have a diverse client base but that they need to be mindful of the issues involved.

Actuaries need to remember that the principles set forth in the Code of Professional Conduct must be applied in all cases and carefully considered as different types of situations arise.

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Retirement 2000: What will the millennium bring?

Contributing new insights on retirement and retirement benefits is the goal of Retirement 2000, a project being spearheaded by five organizations, including the Society of Actuaries.

The project's organizers note that many countries, both developed and developing, are facing major economic and demographic shifts with challenging implications for retirement, public policy, and financing.

At this critical time, Retirement 2000 is intended to raise new ideas for policy makers involved in crucial decisions and to give a variety of stakeholders a voice. The organizations involved include the American Academy of Actuaries, American Society of Pension Actuaries, Conference of Consulting Actuaries, International Foundation of Employee Benefit Plans, and the SOA.

A call for papers is expected to be issued this fall. Notices will be sent to members of the sponsoring organizations and other interested retirement professionals requesting fresh insights on retirement issues and the exploration of questions including:

- How is our current understanding of retirement changing, and will it still be valid in the future?
- What is the appropriate role of government, employers, and individuals in securing one's retirement?
- What is an appropriate social safety net? What should be guaranteed? What should be means tested?
- Are some demographic groups being overlooked? What other groups may be overlooked in the future?
- Can work and retirement be integrated, and if so, how?

The papers are intended to reach actuaries, policy makers, employers, human resource professionals, employee representatives (unions), academics, and others involved in retirement policy.

Abstracts and outlines are due Jan. 20, 1999. The Retirement 2000 Working Group plans to evaluate all papers by March 1, 1999, and notify authors soon thereafter. A conference is tentatively scheduled for February 2000; papers will be due one month prior to the finalized conference date. Details are available from Judy Anderson, staff fellow, or Cathy Cimo, both at the SOA office (phone: 847/706-3500; fax: 847/706-3599; e-mail: *janderson@soa.org* and *ccimo@soa.org*).

Faculty job open in Alberta

A tenure track assistant professorship in mathematical finance is open at the University of Alberta, Edmonton, Alberta, in the Department of Mathematical Sciences beginning July 1, 1999.

The successful candidate will teach graduate courses on modeling the term structure of interest rates and on the mathematics of derivative securities and also undergraduate courses in actuarial mathematics.

The position requires a doctorate in one of the mathematical sciences and some expertise in actuarial science. Expertise in the areas of probability theory, stochastic analysis, stochastic differential equations, point processes, or stochastic control is highly desirable.

Applications will be accepted through Jan. 8, 1999, or until a candidate is selected. Details are available from S.D. Riemenschneider, Chair, Department of Mathematical Sciences, University of Alberta, Edmonton, Alberta T6G 2G1, Canada (e-mail: *valerie@pims1.math.ualberta.ca*). Information on the position and the math sciences department is posted on the Web at *www.math.ualberta.ca*.