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Professionalism Case Study 2

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Content



- Guiding principles for a professional
- Introduction to the case study
- Professional conduct standards (PCS)
- Obligations towards Employer
- Application of PCS and contractual obligations to case study?
- Considerations
 - Pricing Actuary (interviewee)
 - Chief Actuary (interviewer)
- Options for the interviewee
- Is the chief actuary right in asking these questions?
- Simple tests to help make a decision
- Conclusion
- Declaration
- Q&A

Guiding principles for a professional



“In looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if they don’t have the first, the other two will kill you” – Warren Buffet, CEO Berkshire Hathaway

“Real integrity is doing the right thing, knowing that nobody’s going to know whether you did it or not” – Oprah Winfrey

Professional attributes are as important as technical skills -

- Integrity
- Competence and care
- Impartiality
- Compliance
- Communication

Introduction to the case study



- BCA life insurance company is a specialist in term insurance products and has recently launched another successful term insurance product
- ZYX life insurance company had not been focusing on term insurance business but has now made aggressive plans to enter this segment
- ZYX life insurance company wants to hire the pricing actuary of BCA life insurance company
- The chief actuary of ZYX is interviewing the pricing actuary of BCA and asking probing questions on pricing assumptions and profitability of BCA
- The pricing actuary is faced with the dilemma of whether to disclose company-specific sensitive information to a competitor versus personal gain of succeeding in the interview

Professional conduct standards (PCS)



- Professional Standards
 - *“A member has a duty to the profession and must not act in a manner, which denigrates its reputation or impugns its integrity” - PCS, section 2.2*
 - *“Users of actuarial services, including actuary’s firm and colleagues in that firm, are entitled to have absolute confidence in the skill, objectivity and integrity of any member” - PCS, section 2.3*
- Confidentiality
 - *“As a matter of law, information acquired by an actuary in the course of professional work is frequently confidential to the actuary’s client or firm. As such it should not be disclosed unless consent has been obtained from the actuary’s client or firm” - PCS, section 2.5.1*

Professional conduct standards (PCS)



- Conflict of interest
 - *“If there might be a conflict between the interests of different clients or previous clients of the actuary or of the actuary’s firm, the actuary must have proper regard to their respective interests and in particular must not communicate information within the actuary’s firm which the actuary has reason to believe might harm the interest of any client or previous client” - PCS, section 5.4*
- General
 - *“The PCS gives guidance on professional conduct in addition to that is provided under the Act and Rules & Regulations made thereunder and Other Guidance to which all members must conform in both the spirit and letter” - PCS, section 1.1*
 - *“The PCS is not comprehensive or exhaustive. Considerable reliance is therefore placed on the conscience of each individual member and on the collective conscience of all members to maintain the highest standard of conduct” - PCS, section 1.2*

Obligations towards employer

- Contractual obligations
 - *Any employment contract in all likelihood will have a clause on confidentiality which prohibits employees from sharing company-specific confidential information to external parties without their formal consent*
 - *All employees generally need to sign a non-disclosure agreement with their employer which would specifically restrict sharing of such information*
 - A breach of either of the above could invite legal action from the employer
- Data privacy policies
 - *Most companies will generally have a data privacy policy that would require classification of data / information into broad categories like secret, confidential, internal or public. Information / data pertaining to this case study is not likely to be classified as public*
 - Disclosing / discussing information that is not public with an external party would amount to breach of the data privacy policy, thereby invoking disciplinary procedures within the company if such disclosure comes to light

How the PCS / contractual obligations apply to this case study?



- Professional standards
 - *Does seeking or disclosing company-specific confidential information enhance the profession's reputation or qualify as behavior of integrity?*
 - *Will sharing the information with a potential employer not be akin to destroying the fiduciary relationship with the current employer?*
 - *Can technical results derived for one client be applicable for another without consideration of their objectives and / or detailed investigation of the underlying business circumstances (both internal and external)?*
- Confidentiality
 - *Is the pricing information confidential to the current employer?*
 - *Will sharing such information be contractually compliant with any employment contract?*
 - *Will it not be a breach of the non-disclosure agreement with the current employer?*
- Conflict of interest
 - *Can the act of disclosing the information to a competitor harm the interest of the current employer?*

Considerations - Pricing Actuary (interviewee)



- The interviewee should be cognizant of:
 - the applicable professional standards and potential disciplinary action in case of breach
 - contractual obligations towards the current employer and possible legal action in case of violation
- The interviewee should avoid misunderstanding the question - it is highly unlikely that a senior member of the profession would act unprofessionally in seeking confidential information from an interview candidate
- The chief actuary could actually be evaluating the professional integrity of the candidate and actually expecting a professional candidate to decline sharing confidential information
- The chief actuary could be testing the candidates ability to communicate technical topics without disclosing specifics - again important to listen attentively to the caveats the chief actuary may have put in the question
- The candidate should think of ways to demonstrate knowledge of the subject through articulating the various factors to consider and approaches that can be taken to arrive at the expected results
- The candidate should focus on bringing to fore other professional and technical skills that he / she has used in the past to solve specific business problems

Considerations - Chief Actuary (interviewer)



- There is a risk of being misunderstood - thus the chief actuary should ensure to paraphrase the questions and make it abundantly clear that specific details on assumptions used by the current employer are not required
- The chief actuary could be complained against for breach of PCS and subjected to disciplinary procedures as per section 4 of the PCS, if the candidate misunderstands the question
- As a senior member of the profession, the chief actuary has responsibilities to uphold the PCS and not denigrate the profession's reputation - hence important to not let the candidate make any wrong perception on the intent of the question
- Questions probing the prior experience cannot be avoided, but should be well articulated, as it is important to perform an overall assessment of the candidate's technical and professional skills to make a technically sound hiring decision
- A candidate who doesn't demonstrate professional integrity may pose a risk of leaking similar confidential information to other competitors in future
- Any question construed as probing with a wrongful intent may reflect poorly on the company's culture and values, impact its brand image, and may impact the company's ability to attract sound professional talent in future

Options for the interviewee



- Can elaborate on the methodology / approach used to arrive at the specific assumptions without getting into the specifics of the current employer, e.g.,
 - Mortality - graduating crude mortality rates with reference to a standard mortality table
 - Lapse - investigating cohort wise experience, with allowance for future measures to drive better customer retention
 - Profitability - based on internal rate of return
- Can demonstrate overall knowledge of the subject, highlighting the host of other factors that were considered and how they are expected to vary from company to company
- Can highlight other technical skills to bring home the fact that the professional and technical skills on offer are far more than just the term product pricing experience
- If the interviewee believes that there is no ambiguity and the intent of the question is malafide, then they may:
 - Choose to politely decline sharing specifics citing personal ethics and professional standards
 - Can form an opinion on the values of the company and decide on whether to make a career with them
 - Can request the chief actuary to be empathetic and suggest to put himself / herself in the shoes of the current employer and then decide
 - Can consider reporting the chief actuary to the disciplinary committee for professional misconduct if the candidate believes that the questions were truly invasive and that such behavior was bringing the profession into disrepute

Is the chief actuary right in asking these questions?



- The chief actuary would be right in asking these questions to fulfill their responsibility of making a sound hiring decision based on thorough technical assessment, provided they have clearly articulated that the intent of the questions is to not seek company-specific confidential details but understand the methodology / approach used to arrive at the specific assumptions - important to ensure that there is no room for ambiguity
- In the absence of clear articulation of intent of the question or phrasing the questions in a manner that creates an impression of seeking company-specific confidential information, the chief actuary would not be exhibiting the professional standards expected from a member of the profession

Simple tests to help make a decision



- Legal
 - Is it allowed?
- Transparency
 - Do you mind others knowing what you have decided or done?
- Effect
 - Does your decision hurt your current stakeholders adversely?
- Fairness
 - Would your actions be considered fair by those affected?
- Reflection
 - Do you see yourself as you want to see yourself?

Conclusion



- Institute of Actuaries of India provides a suitable framework for members to maintain high professional standards through the professional conduct standards, various guidance notes, and actuarial practice standards
- As a member of the profession, it is imperative to be thoroughly aware of this framework to not just fulfill the responsibility of maintaining the profession's credibility but also to avoid being subject to disciplinary action in case of misconduct / breach
- For the given case study, the PCS pretty much apply directly and provide guidance on what should or should not be done
- There will, however, be situations where there is a temptation to read between the lines and hide under the garb of interpretation
- In such situations, a true professional will make a distinction between being technically right in just the letter or being technically right in spirit as well
- Where compliance ends, ethics take over - the difference lies in knowing what you have a right to do and what is right to do

Disclaimer



The views and possible actions expressed during this presentation are personal and not meant to be exhaustive; presented for the purpose of discussions during IFS only based on the given case study.

The material shouldn't be misconstrued as any form of advice

