

# Contributing to the Well-Being of Society

## *Summary first brainstorm on 1 April 2020*

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‘All of the work done by actuaries is contributing to the best interest of society’

Focus on politicians and policymakers

Insurance is in the public interest. Insurance is about risk. Actuaries are the brains behind risk management.

Insurance risk is easier to discuss than investment risks.

If it is about investments (savings products, unit linked, universal life) ‘you are in bad companion’.

Therefore we need to differentiate between the risk and the savings arm.

Many decisions are made by insurance management; actuaries are involved; mistakes have been made; we need to build our story as actuarial profession.

Pension actuaries: set a price to risk, helping to keep the pension promise where there are huge risks of underfunding.

- ➔ We can name what can/has to be done
- ➔ We have the specific ability to help insurers not to make promises that they cannot keep
- ➔ We can appropriately qualify the opportunity

Most consumers seem to want an interest guarantee. We know the risks and the pros and cons for both the insurer and the consumer.

The basis of our contribution to the well-being of society is in our system of education, CPD requirements and Code of Professional Conduct

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## *Summary second brainstorm on 7 May 2020*

After some introduction based on the pre-read for this brainstorm (see appendix) we came to the conclusion that many ethical issues originated from the tension between **Short-termism and Long-termism**

We also concluded that an important attribution of financial inclusion is financial literacy. The actuarial profession could play a role in the promotion of financial literacy.

It was suggested to share lessons learned. We could **write a book** describing with examples that didn’t work. A book with ethical dilemma’s derived from the lives of actuaries. A history of lessons learned. A guidebook for actuarial students and actuaries. It could also result in **a video** to members.

A long-term perspective could contradict commercial interest.

Out of commercial interest consumers are sometimes provided with inappropriate solutions (“cheated”). If it is cheating “a little bit”, John Smith loses, but it will not easily be noticed. This might happen with all kinds of additional insurance cover that you normally don’t really need, that provide an (almost) unnecessary cover and/or provide cover at a (much) too high premium.

This links back to financial inclusion. Especially in all kinds of mandatory insurance this should not occur and more ethical criteria fall into place.

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Consumer organisations have traditionally not been our stakeholders. Perhaps we should reconsider what the right stakeholders are for the actuarial profession. It is likely that we should add consumer organisations to our group of stakeholders we are actively engaging with.

We concluded with a discussion on our goal with these brainstorm sessions. We arrived at the following list:

- . Collecting ideas
- . Gaining clarity about what we see as our goals
- . Answering the question “what can we do?”
- . Answering the question “how can we encourage our MAs in this field?”
- . Answering the question “how can we support other organisations in this field?” (such as consumer organisations)

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### *Appendix: Pre-read to the second brainstorm of 7 May 2020*

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Some thoughts of Falco for further discussion in the second brainstorm:

- In our paper ‘Clarity before Solvency’ we addressed pension promises and the fact that many pension promises (2<sup>nd</sup> pillar, but it also counts for the 1<sup>st</sup> pillar) are not sustainable. Often the assumptions made are too optimistic (e.g. using a (much) higher discount rate than risk-free), promises are firm and resemble a guarantee, even if the promises is formally much weaker than a guarantee the expectations of the members is a guarantee. We started from ‘say what you do and do what you say’. We suggested to apply this starting with future accrual. If you have said that the pension promise was a hard guarantee, start using a risk-free rate for the valuation in order to ‘do what you say’ (and stop using the expected rate of return on the assets as is some jurisdictions is the current practice). This would fix the future accrual. With regard to the past we have suggest that social partners who mutually agreed on the pension promise (2<sup>nd</sup> pillar) and have generally both been involved in the management of it, need to sit together to discuss what the original promise was, why they agreed on it, why they thought it was achievable, why they now understand that it is not longer sustainable, and address many more of such questions. This would be a process of getting deep understanding of what has led us to where we are and what the role of each stakeholder was and the reasons behind. This not trying to find somebody to blame, but to recognised that all stakeholders had good reasons for what they have agreed to and what they have done. We used the term ‘Comprehension and Conciliation approach’ for such a process with the aim of ‘understanding and respecting each other to find constructive ways forward together’. I would like to see that actuaries would actively address situations like this. The pension situation is huge in terms of money involved. Society is pushing the financial problems forward, pushing the difficulties to the future. That means pushing the problems to future generations. Sooner or later this will become a big problem, where even social unrest could result from. Such role for actuaries requires an independent view and a strong backbone in order to speak up. The profession could facilitate this by a Code of Conduct, providing intervision to actuaries who see themselves in a difficult position. We could even state in our Code of Conduct that if an actuary is fired from the job, because he has spoken up, that another actuary is not allowed to take over in case the driving reason was that the management was not happy with the opinion of the actuary.
- Similarly in the nineties there was a practice in the area of unit linked and universal life policies in The Netherlands where consumers were promised high expected returns (based on past performance, a bit PRIIPS-like). In addition the cost loadings were not or not enough disclosed. The reality was that the high returns were not realised (dotcom crisis in 2001-2003 and the financial crisis of 2008-2012). Due to the low and negative returns the high cost loadings became visible and insurers were hold liable. Many consumers went to court. Class actions were started. The court cases and Financial Tribunal cases are still going on and the insurers have already paid billions of compensation and there is more to come. Not to mention the gigantic loss of trust in the insurance sector. Actuaries have played their roles. Have they sufficiently spoken up to management? Could they rely on the support of the professional association if they had? Are there sufficiently whistle blowing protection arrangements available? My brother and I published in 1994 a very first report addressing these issues. We did it again in 1997, 1999 and 2000. We collected over the years more and more information and have been more and more explicit in our reports where we saw the problems. We got more and more attention of the press including TV. Nevertheless it took until 2004 (just after the effects of the dotcom crisis became

apparent) when the first legal cases were started. It was our wish to start a process where all stakeholders would have been sitting together to understand what happened, what the role of each has been. The Comprehension approach. Without involvement of the press, in a safe environment. In our view it was not just the insurers that were to blame. It was also the broker who sold the products to collect sizeable commissions. It was the bankers who advocated these products in combination with mortgages in order to facilitate consumers to buy houses at a low financing cost (as long as the high investment returns were realised). It was the government who facilitated interesting tax treatments. It was also the consumer who just was greedy and wanted to get rich quickly and believed it was possible. Here again, like in pensions, we needed a Comprehension and Conciliation approach. We (my brother and I) failed to do this as the insurers made clear that we should have paid for such extensive sessions with all stakeholders. We didn't have the money to do that and we also believed that it should not be us to pay for facilitating such dialogue between stakeholders.

- Climate discussion: lot of statistics needed. Climate discussion is driven by opinions. → Facts needed. → actuaries can play a role. Climate is closely related to risks and risk management, our territory. It is a 'hot' discussion. We could contribute to the well-being of society by playing a role in this area. It is again a field where it is not uncommon that problems are pushed forward to the future, to next generations. Again a situation where sooner or later a Comprehension and Conciliation approach will be needed (alternatively, also in the previous cases, another 'C' comes in going to Court).
- Digital Ethics is yet another field where actuaries can contribute to the well-being of society. Again a field where, if not done properly and transparently, problems will sooner or later come to the surface. The advantage here is that the developments are still (relatively speaking) at its infancy. We can (and are already) bring the actuarial unbiased voice into the discussion.
- Social security is yet another field where often promises are made that likely cannot be kept. Actuaries could help address these. Our SSSC is already doing some good work in this area. A good example of contributing to the well-being of society.
- What support can the actuarial profession, can the AAE give to (individual) actuaries who want to speak up?
  - o Providing intervention?
  - o Enhanced requirements for taking over the job of an actuary by another actuary?
  - o Enhanced support to actuaries who whistle blow?
  - o More?
- How can we make the connection of our work better visible as a contribution to the well-being of society. I believe that it is then required to point at the effects of certain actions on (large groups of) individuals. Normally we are not used to do so. We will do what is asked and perhaps make a remark by the assumptions used, but not more than that. We need to be more outspoken if we want to play a role here. This could easily be seen as 'political' and we don't want to be political. I think, though, that it is a matter of daring to address difficult issues that usually have a long time span and are not easily recognised by untrained people.