



The Principles of Professionalism

1. Professionalism, for the actuarial profession, means:
 - the application of specialist actuarial knowledge and expertise;
 - the demonstration of ethical behaviour, especially in doing actuarial work; and
 - the actuary's accountability to a professional actuarial association or similar professional oversight organisation.
2. This definition of professionalism is derived from the following high-level principles of professionalism, which are discussed in more detail further on in this report:
 - A. Knowledge and expertise:** *An actuary shall perform professional services only if the actuary is competent and appropriately experienced to do so.*
 - B. Values and behaviour:** *An actuary shall act honestly, with integrity and competence, and in a manner that fulfils the profession's responsibility to the public and upholds the reputation of the actuarial profession.*
 - C. Professional accountability:** *An actuary shall be accountable to a professional actuarial association or a similar professional oversight organisation.*

Principle A: Knowledge and Expertise

3. **An actuary shall perform professional services only if competent and appropriately experienced to do so.** This principle is supported by the following elements:
 - a) Specialist knowledge
 - b) Professional communication
 - c) Required education
 - d) Continuing professional development

Specialist knowledge

4. The existence of a distinct actuarial profession globally is a result of actuaries' specialist knowledge and expertise.
5. Actuaries are equipped to help their clients make informed choices and develop efficient solutions to safeguard their future in an ever-changing world. These clients include governments, community organizations, funds, industries, businesses and individuals.
6. Actuaries work primarily in fields such as in life insurance, general insurance, enterprise risk management, health care financing, investments, corporate finance, banking, financial services and the provision of pensions and social security.
7. Actuaries provide realistic, innovative and numerate solutions to complex financial and other measurable problems, especially over long time horizons and for uncertain events, using a control process to monitor and refine solutions over time.
8. Actuaries are the acknowledged experts in modeling complex future events, often developing models from first principles, and the analysis of data. These models include sensitivity analysis and scenario testing in order to communicate to clients the model dynamics and the implications of the model results as a tool for understanding.
9. Actuaries apply this skill set within a professional environment which ensures the delivery of competent work, professional ethics, life-long learning, professional standards and discipline, and contribution to the public debate in matters affecting the public interest.

Professional communication

10. Effective and appropriate communication is an essential part of all actuarial work.
11. Moreover, appropriate communication skills, in the context of the delivery of actuarial services, form a part of the intellectual techniques that actuaries need to learn and develop, rather than being regarded as an element of behaviour.
12. Appropriate communication includes the ability of the actuary to:
 - Document the work done.
 - Communicate the basis and the outcome of work to other actuaries.
 - Communicate with junior actuarial staff who will continue the work.
 - Communicate the assumptions, outcome and implications of actuarial work to the actuary's superior or client.
 - Prepare presentation material for presentation to boards of directors or trustees.
13. The communication skills required by a professional actuary are also based on the need to prevent misunderstanding of advice and services by clients who may not have relevant skills or knowledge. The actuary therefore needs to ensure that the advice given is communicated properly.

14. Much actuarial work requires an awareness of the business context, both to do good work and effectively communicate the results.
15. One of the most important issues regarding communication is that of education, with professionalism courses and continuing professional development being only some of the methods of developing these skills. Some Full Member Associations (FMAs) have already introduced both communication skills and business awareness into their education syllabus.

Required education

16. The IAA, in its regulations for membership requirements for Full Member Associations, sets out guidelines and a syllabus for the educational requirements of a fully qualified actuary. Each FMA will, in addition, have in its own jurisdiction further detailed requirements for the admission of actuaries to their membership.
17. Actuaries have a large skill set which is unique in its breadth of knowledge and training. The IAA's 2007 Education Syllabus defines the following minimum list of subjects for fully qualified actuaries:
 - Financial Mathematics
 - Probability and Mathematical Statistics
 - Economics
 - Accounting
 - Modeling
 - Statistical methods
 - Actuarial mathematics
 - Investments and asset analysis
 - Actuarial risk management
 - Professionalism

Continuing professional development

18. Actuaries need to maintain their knowledge, expertise and skills in order to be competent and appropriately experienced to complete actuarial work in a particular area. This continuing professional development is required in the light of changes in techniques, regulations and professional standards and codes of professional conduct.
19. Continuing professional development could include analysis of case studies, general topics on ethics and analysis of current problems, so as to enhance the qualified members' understanding of current technical and professional issues.

20. Lessons can also be learned from the interaction with other professions, knowing their codes of conduct, exchanging points of view, as well as having joint sessions analyzing current business or society issues. This issue is important because the professional actuary will often operate in multi-disciplinary teams.
21. Continuing professional development may be supported by a compliance program administered by the actuary's association.

Principle B: Values and Behaviour

22. **An actuary shall act honestly, with integrity and competence, and in a manner that fulfils the profession's responsibility to the public and upholds the reputation of the actuarial profession.** This principle is supported by the following elements:
 - a) Ethical behaviour
 - b) Integrity
 - c) Independent advice
 - d) Trust and reputation
 - e) Public interest

Ethical Behaviour

23. The consensus view is that ethical behaviour must be explicitly incorporated in any definition of professionalism. Many associations have words in their codes of conduct which cover ethical behaviour. As a good example, the Canadian Institute of Actuaries' first rule captures this sentiment very clearly and concisely:

A member shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession.

24. There do not appear to be material or cultural differences in views on what is ethical. No such differences have emerged during discussions in the Professionalism Committee, nor has anyone challenged this assertion, which was included in a presentation at ICA 2010 by the chairperson of the Professionalism Committee.
25. There are, however, some cultural differences of emphasis. One such example, supplied by a member of the Professionalism Committee, relates to the subject of "whistle-blowing". He observed that in some cultures it is not the practice to directly criticise another person, so problems are sorted out by indirect approaches.

Integrity

26. Within the topic of ethical behaviour, there is a strong consensus that the foundation of good behaviour is integrity. It is surely no accident that the list of IAA requirements in regulation 2.2.2 (f)(i) begins:

An actuary shall perform professional services with integrity, skill and care ...

27. Many associations follow this lead and give prominence in their codes of conduct to integrity. One such example is the code of conduct in Mexico, which lists a set of General Principles, starting with:

Act honestly, with integrity, impartiality, high sense of probity and good faith, ...

28. We, in the actuarial profession, are not alone in describing integrity as the cornerstone of professional ethical behaviour. In 2009, the Federation of European Accountants (FEE) published a Discussion Paper entitled “Integrity in Professional Ethics”. The following extracts give a flavour of the views expressed by the FEE.

FEE believes there is a case to argue that Integrity is the core [ethical] principle, as without integrity, no professional activity can be relied upon.

Integrity and ethics must be at the heart of professional life in order to achieve full public trust.

Integrity often refers to the quality of a person’s character but is always about ‘doing the right thing’. Integrity, therefore, is the cornerstone of professional behaviour. Amongst other things, it is essential that the profession, as a whole, retains its reputation for honesty, straightforwardness, fair dealing and truthfulness: without this, the profession will lose credibility.

The IAA responded to this Discussion Paper expressing our support for these views, as did the Groupe Consultatif.

29. Helpfully, the FEE paper set out a list of the components of integrity:

It seems to FEE that the behavioural characteristics expected of someone behaving with integrity in a professional context should be as follows:

- a) Be straightforward, honest, and truthful (including to oneself). This is an important ingredient of being seen to be credible and reliable;*
- b) Deal fairly. This means behaving in accordance with the norms expected by the profession, or personal values if higher. It includes treating people on the same basis, without bias;*

- c) *Comply with the spirit as well as the letter of laws and regulations;*
- d) *Take into consideration the public interest;*
- e) *Show consistency;*
- f) *Be open-minded and open to consider new information and ideas;*
- g) *Take corrective action.*

It follows from the above that a professional accountant's advice and work should be uncorrupted by self-interest or other financial or behavioural motives and should not be influenced by the interests of other parties.

Independent advice

30. An important aspect of professionalism and ethical behaviour is the ability of the actuary, whether employed or not, to express an independent opinion or provide unbiased independent advice, where the circumstances require this. The Groupe Consultatif produced a discussion paper on the topic of operational independence in the context of the actuarial function under Solvency II. This made a number of important points about independence.

... independence ... might be described as the ability to analyse and to make relevant decisions ... without being unduly or inappropriately controlled, constrained or influenced ...

... independence is compromised if there is any form of pressure on the persons carrying out the actuarial function to make a particular decision on the data, methods, assumptions or results of their work.

... independence is a question of thought and process and does not necessarily prejudice location of the role, employment status or reporting structures.

Independence is strengthened by the governance structures, including the facility to report directly to the Board (or Boards) and an obligation to 'blow the whistle' or 'report' to the regulator in circumstances in which ... independence is threatened.

... independence is also enhanced through transparency and disclosure of summarised data and results, including reporting on the methodologies adopted, the assumptions used and the thought processes by which they were arrived at.

... independence involves the person in question taking personal responsibility and should be demonstrated by personally signing a report which certifies what has been done ...

Trust and Reputation

31. The codes of conduct which underpin the professionalism of member associations are primarily designed to create and maintain trust in the work of actuaries among the users of actuarial advice.
32. To this end, many codes require the actuary not to do anything that might harm the reputation of the actuarial profession or their association. Indeed, some codes also encourage the actuary to strive to enhance those reputations at all times.
33. Trust and reputation are qualities that may take many years to build up but can be destroyed very quickly, even by the actions of a single (high-profile) individual. These aspects of a code appeal to the actuary's sense of collective responsibility to the profession to which he or she belongs and which provides his or her livelihood.

Public Interest

34. The essential element that sets a profession apart from a trade, craft or guild is the overriding interest of the professional in the public well-being, whether or not that comes into conflict with the immediate objective of earning his or her living. Professions owe their status and recognition in society to the extent that they serve the public interest, or social good.
35. Serving the public interest is primarily an issue for the profession, and usually is a lesser day-to-day concern for the individual actuary whose primary responsibility is to serve the client through the contractual relationship.
36. Individual actuaries serve the public interest by being responsible and effective members of the profession, upholding the values and standards of the profession, fulfilling statutory roles, avoiding conduct which could bring the profession into disrepute and supporting the professional organization that provides public interface with the profession in the actuary's jurisdiction.
37. The current IAA membership regulations require that "*An actuary shall act in a manner that fulfils the profession's responsibility to the public*", without explaining what this means in practice.
38. The IAA could state that, provided an actuary meets the requirements of the law and constitution in their respective jurisdictions, his or her actuarial associations' code of professional conduct and professional standards, then he or she will have met the expectations of the profession with respect to the public interest.
39. The current IAA membership regulations state that:

The Full Member may provide more specific guidance if it wishes to do so (for example, it may indicate that an actuary could consider advising a client or employer where a proposed course of action would, in the opinion of the actuary, be contrary to the public interest).

40. When developing standards of actuarial practice, both the IAA and the FMAs could consider how such standards could address any specific matters of public interest based on the principles set out above.

Principle C: Professional Accountability

41. **An actuary shall be accountable to a professional actuarial association or similar professional oversight organisation.** This principle is supported by the following elements:
- a) Entry and qualification standards
 - b) Code of conduct
 - c) Disciplinary process

Entry and qualification standards

42. Each Full Member Association has its own requirements to admit members as fully qualified actuaries and, although the detailed requirements vary from country to country, they must comply at a minimum with the IAA regulations for accreditation of FMAs.
43. The admission of fully qualified members will in all cases be subject to the members' education in actuarial science and other required subjects. This education could range from being university-based, academy-based, education delivered by a professional association, or any combination of these approaches. The IAA's Education Guidelines state that it does not prescribe either the education process or the assessment methods.
44. In some countries the acceptance of qualified members is also subject to the passing of examinations established by the profession, as well as being subject to professional standards established by the FMA or another regulatory body.
45. Some FMAs will also require completion of work-based skills as well as the compulsory attendance of professionalism courses or seminars.
46. As part of the admission requirements for a fully qualified actuary, the member must know and acknowledge the FMA's applicable code of professional conduct and its disciplinary process.

Code of Conduct

47. Any professional organization must have adopted rules that govern the conduct of its members as they undertake the specialized work for which they have been, and continue to be, trained. To that end, the IAA requires of its Full Member Associations that their codes of conduct encompass, and are consistent with, a number of professional principles as set out in IAA Internal Regulation 2.1.4. These principles currently deal with the matters of:
- a) integrity
 - b) qualification and competence
 - c) conformity with professional standards
 - d) courtesy and cooperation
 - e) confidentiality
 - f) disclosure
 - g) conflict of interest
 - h) control of work product
 - i) subjection to disciplinary procedures.
48. IAA member associations may incorporate additional requirements in their codes of conduct as long as these are not in conflict with the required elements.
49. All members of the professional organization must be required to adhere to the elements of the code of conduct and failure to do so must be considered a matter for disciplinary consideration. To aid members in their adherence to the code of conduct, such rules must be made readily available to all members of the organization and the members are to be encouraged to review them from time to time.
50. The code of conduct will also require the actuary to comply with the applicable standards of practice set by actuarial bodies and other stakeholders, including the regulatory roles of actuaries and any applicable legislation. It is the responsibility of the actuary to establish what standards of practice apply to any given work, taking into account the actuary's membership of any FMAs, the physical and legal jurisdiction of the work or the client, and the disclosures made by the actuary with regard to the applicable standards of practice.

Disciplinary Process

51. In order to ensure that the organization is serious about its code of conduct and that adherence to its tenets are mandatory, a professional organization must have a formal process of professional discipline to which transgressors of the code are subjected. Such discipline process must be applied equably and must be seen so to be.

52. The IAA has adopted a short list of criteria to which the discipline processes of Full Member Associations must conform. These are:
- a) There must be a process for receipt of complaints about a member that is accessible by anyone affected by the member's work and the member's professional peers;
 - b) There must be a due process by which the member complained against may defend him/herself and the member's rights must be fully respected;
 - c) There must be a formal appeal process that is independent of the body that has ruled at the prior level;
 - d) There must be a variety of sanctions available that are appropriate to the seriousness of the offenses committed, including termination of membership; and
 - e) When a penalty has been imposed, the process must enable the organization to give appropriate and consistent publicity to the results of a complaint, including the right to provide pertinent information to other actuarial organizations.
53. The operation of a discipline process can be a very expensive undertaking. Consequently, within the constraints of these requirements, the nature of the discipline process will vary considerably between organizations. For smaller organizations, the issue of conflicts of interest and the need for independence of the appeal process can be problematic. Nevertheless, with some effort and with the assistance of other actuarial organizations or recruitment of senior actuaries from other associations, these difficulties can be and have been surmounted.

Conclusion

54. After consultation with its FMAs, the principles as set out in this report were formally adopted by the Council of the IAA on 23 January 2012.