



CASUALTY ACTUARIAL SOCIETY

## WHY GOOD PEOPLE DO BAD THINGS

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### PROFESSIONAL INTEGRITY

**PRECEPT 1. An Actuary 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**

## REPUTATION

Warren Buffett: It takes 20 years to build a reputation and five minutes to ruin it.

We can afford to lose money, but not our reputation.  
How would you feel about your actions, if your family read about them on the front page of the newspaper?

If you lose money for the firm I will be understanding. If you lose a shred of reputation for the firm, I will be ruthless.

Possible Problem Identification

**DO I HAVE A PROBLEM?**

**CAN 2 PEOPLE LOOK AT THE SAME THING, COME TO DIFFERENT CONCLUSIONS & BOTH BE CORRECT?**

## WHAT IF SOMEONE IS WRONG, OR TECHNICALLY RIGHT, BUT SEEMS WRONG?



- WHY DID YOU DO IT?
- DID YOU THINK YOU COULD GET AWAY WITH IT?
- WHY DIDN'T I FIND OUT ABOUT THIS SOONER?
- WHAT AM I GOING TO DO WITH YOU NOW?
- DO YOU KNOW HOW MUCH OF A HASSLE THIS WILL BE?

## BETTER QUESTIONS

- WHY ARE MY EMPLOYEES ACTING IMPROPERLY?
- WHAT CAN I DO TO PREVENT THE IMPROPER ACTIONS?
- HOW CAN I CREATE AN ENVIRONMENT WHERE MY EMPLOYEES BELIEVE THEY CAN SUCCEED, WHILE STAYING WITHIN ACCEPTABLE RULES?



## BREAKING THE RULES

- STRICT CONSTRUCTIONIST
- PRESSURE
- ALTRUISTS
- PRISONERS
- INCREMENTALISTS
- GROUPTHINK/AUTHORITY
- RATIONALIZERS
- GREED
- PRANKSTERS


Definition of *strict construction* in English:

**strict  
construction**

Syllabification: strict con-struc-tion

NOUN *Law*


a literal interpretation of a statute or document by a court.



Ethics is knowing the difference between what you have a right to do and what is right to do.

(Potter Stewart)

izquotes.com



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PROFESSIONALISM

HOME | PROFESSIONALISM | POLICY AND GUIDELINES FOR ANTITRUST COMPLIANCE

Standards and Guidelines  
Code of Conduct  
Statement of Principles  
Policies and Procedures

**ANTITRUST COMPLIANCE POLICY**

It is the long-standing and undeviating policy of the Casualty Actuarial Society to comply in all respects with the letter and spirit of the antitrust laws.

## STRICT CONSTRUCTIONIST

- DO MORE THAN THE MINIMUM AMOUNT IN ORDER TO SQUEAK ABOVE THE LAW
- JUST SKIMMING THE SURFACE OF LEGAL COMPLIANCE DOESN'T LEAVE ROOM FOR ERROR
  - IF LAWS ARE WHAT WE MUST DO, THEN ETHICS ARE WHAT WE OUGHT TO DO

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Definition of pressure in English:

# pressure

★ Top 1000 frequently used words

Syllabification: pres-sure

Pronunciation: /preʃər/

NOUN

1. the continuous physical force exerted on or against an object by something in contact with it:

*'the slight extra pressure he applied to her hand'*

MORE EXAMPLE SENTENCES

1.1 the force exerted per unit area:

*'gas can be fed to the turbines at a pressure of around 250 psi'*

MORE EXAMPLE SENTENCES

SYNONYMS

2. the use of persuasion, influence, or intimidation to make someone do something:

*'the proposals put pressure on Britain to drop its demand'*

*'the many pressures on girls to worry about their looks'*

MORE EXAMPLE SENTENCES

SYNONYMS

2.1 the influence or effect of someone or something:

*'oil prices came under some downward pressure'*

MORE EXAMPLE SENTENCES

2.2 the feeling of stressful urgency caused by the necessity of doing or achieving something, especially with limited time:

*'you need to be able to work under pressure and not get flustered'*

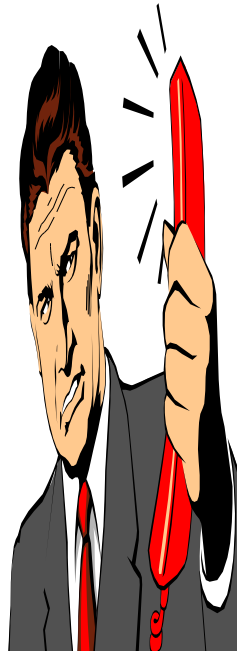
*'some offenders might find prison a refuge against the pressures of the outside world'*

MORE EXAMPLE SENTENCES

SYNONYMS

## PRESSURE

- WHY DO PRESSURED EMPLOYEES CHEAT?
- WE LOOK AND SEE HOW PEOPLE ARE REWARDED & PUNISHED



# The Actuary

The magazine of the actuarial profession



LIFE PENSIONS GI INVESTMENT RISK & ERM HEALTH REINSURANCE ENVIRONMENT REGULATION MODELLING INTERNATIONAL CAREERS

HOME NEWS FEATURES INTERVIEWS OPINION SUPPLEMENT EVENTS STUDENT ARTS PUZZLES JOBS

### Actuarial integrity under pressure

Richard S Foster became briefly perhaps the most famous actuary in the world during March and April. At a time when the integrity of actuaries is being challenged as never before, his story sets perhaps a different example.

Richard Foster is chief actuary at the Centers for Medicare and Medicaid Services in the US (Medicare and Medicaid are the principal US government programmes providing health services to elderly and impoverished citizens). During 2003 the administration wanted to gain Congressional approval for politically attractive changes to the Medicare benefits for the elderly. Foster's actuarial estimates of the costs involved was approximately 50% higher than the estimates provided by the administration to Congress. It is alleged that Foster's then superior suppressed the higher estimates in order to get the changes through Congress.

This emerged in recent testimony by Richard Foster to Congress in relation to potential action against his superior. Foster resisted the temptation to resign from his job, and has been widely praised for his bravery in giving his account of events.



GE 2000 Annual Report



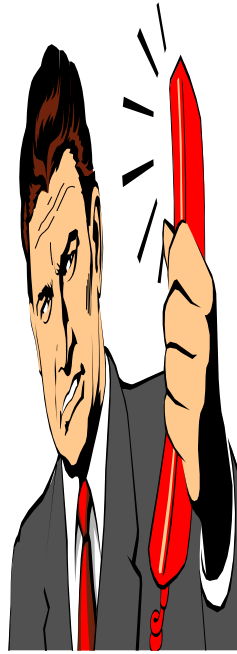
#### Leadership

And it's about the four "types" that represent the way we evaluate and deal with our existing leaders. Type I: shares our values; makes the numbers—sky's the limit! Type II: doesn't share the values; doesn't make the numbers—gone. Type III: shares the values; misses the numbers—typically, another chance, or two.

None of these three are tough calls, but Type IV is the toughest call of all: the manager who doesn't share the values, but delivers the numbers; the "go-to" manager, the hammer, who delivers the bacon but does it on the backs of people, often "kissing up and kicking down" during the process. This type is the toughest to part with because organizations always want to deliver—it's in the blood—and to let someone go who gets the job done is yet another unnatural act. But we have to remove these Type IVs because they have the power, by themselves, to destroy the open, informal, trust-based culture we need to win today and tomorrow.

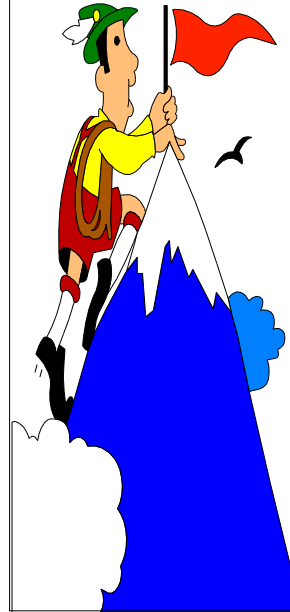
## PRESSURE

- DOES NOT LIVE UP TO BOSSES EXPECTATIONS
  - ARE THE EXPECTATIONS REALISTIC?
- CAN SET AGGRESSIVE GOALS
  - MUST BE ABLE TO ACCOMPLISH WITH REASONABLE - ETHICAL EFFORTS, CONSISTENT WITH THE MISSION OF THE COMPANY



## PRESSURE

- SET REALISTIC GOALS
- FOLLOW YOUR MISSION STATEMENTS
- CHALLENGE HOW AGGRESSIVE GOALS ARE OBTAINED
  - CAN THESE ETHICAL TECHNIQUES BE SHARED WITH OTHERS



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Definition of *altruism* in English:

### altruism

Syllabification: al-tru-ism  
Pronunciation: /ˈaltruːˌɪzəm/

NOUN

the belief in or practice of disinterested and selfless concern for the well-being of others:  
*Some may choose to work with vulnerable elderly people out of altruism.*

MORE EXAMPLE SENTENCES

**Zoology** behavior of an animal that benefits another at its own expense.

MORE EXAMPLE SENTENCES

Derivatives

**altruist**  
NOUN

## ALTRUISTS

- HOW DO WE TREAT EMPLOYEES THAT ACT IMPROPERLY, BUT IT APPEARS TO BENEFIT THE COMPANY?
  - GOOD SOLDIER
  - STEALS FOR THE ORGANIZATION -
    - NOT FROM IT
- MISGUIDED LOYALTY



## PROFESSIONAL SKEPTICISM

**A** (actuarial)  
startup

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### Actuarial New Year's Resolutions

February 21, 2014

#### *Develop professional skepticism*

What sets good actuaries from the rest is whether they take what is presented to them as given. Had Glengarry Glen Ross plot been set with actuaries instead of salesmen, the ABC's would stand for **A-Always B-Be C-Cynical**.

Professional skepticism is not a requirement just for auditors. Given the complexity of actuarial work, if you are not skeptical of the results you produce the people higher up in the chain of command may not know all the nitty-gritty to catch an error if there happens to be one.

This point goes hand in hand with the point above relating to asking questions. However, don't just direct the questions at others, question your own performance, your data, your results.

## ALTRUISTS

- TRUST YOUR EMPLOYEES, BUT VERIFY HOW THEY ACCOMPLISH GOALS
  - ITS NOT JUST THE "WHAT", ITS ALSO THE "HOW"
- DO NOT WINK AT VIOLATIONS
- EXPLAIN THE IMPORTANCE OF COMPLIANCE
  - EVEN WHEN THE COMPANY APPEARS TO BENEFIT FROM A BREACH



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## PRISONERS OF CIRCUMSTANCES YOUR PROBLEM IS MY BUSINESS

- HUMAN NATURE
  - NO ONE WILL NOTICE
    - MAYBE I CAN HIDE IT
  - PROBLEM WILL GO AWAY
  - I'LL GO AWAY



Definition of *prisoner* in English:

# prisoner

Syllabification: pris-on-er

Pronunciation: /prɪz(ə)nə ɹ/

NOUN

1 a person legally held in prison as a punishment for crimes they have committed or while awaiting trial.

MORE EXAMPLE SENTENCES

SYNONYMS

1.1 a person captured and kept confined by an enemy, opponent, or criminal:

*'the heroine was being held prisoner in a cave'*

*'200 rebels were taken prisoner'*

MORE EXAMPLE SENTENCES

SYNONYMS

1.2 a person who is or feels confined or trapped by a situation or set of circumstances:

*'he's become a prisoner of the publicity he's generated'*

### VIOLATIONS OF THE CODE OF PROFESSIONAL CONDUCT

**PRECEPT 13. An Actuary with knowledge of an apparent, unresolved, material violation of the Code by another Actuary should consider discussing the situation with the other Actuary and attempt to resolve the apparent violation. If such discussion is not attempted or is not successful, the Actuary shall disclose such violation to the appropriate counseling and discipline body of the profession, except where the disclosure would be contrary to Law or would divulge Confidential Information.**

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ILLEGAL  
BLACK  
WRONG  
EVIL

LEGAL  
WHITE  
RIGHT  
GOOD

Definition of *incrementalism* in English:

## incrementalism

Syllabification: in-cre-men-tal-ism  
Pronunciation: /ˌɪŋkərəˈmentlɪzəm, -ɪn-ə/

NOUN

belief in or advocacy of change by degrees, gradualism.

MORE EXAMPLE SENTENCES

Derivatives

**incrementalist**  
NOUN & ADJECTIVE



## INCREMENTALIST

- TRY TO RESIST THE PRESSURE TO “DO SOMETHING JUST ONCE”
  - AFTER YOU’VE DONE IT THE FIRST TIME ITS TOUGHER TO SAY NO, THE SECOND, FIFTH AND TENTH TIME
- IF YOU DON’T GET CAUGHT, ITS EASIER TO JUSTIFY LARGER OFFENSES

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Definition of *groupthink* in English:

## groupthink

Syllabification: group-think

Pronunciation: /gru:p, THINGk# /

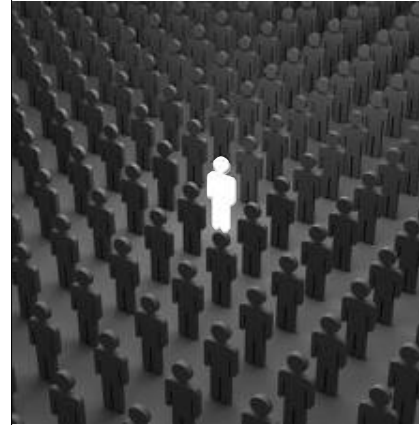
NOUN chiefly *North American*

the practice of thinking or making decisions as a group in a way that discourages creativity or individual responsibility:

*'There's always a danger of groupthink when two leaders agree on a plan.'*

MORE EXAMPLE SENTENCES

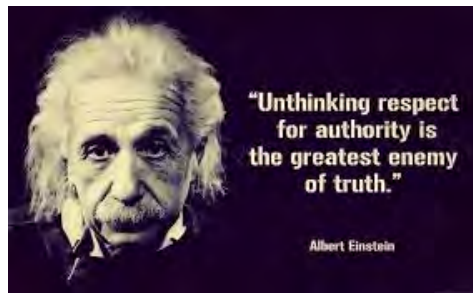
## GROUPTHINK



- BE WILLING TO STAND OUT IN A CROWD
- DON'T JUST GO WITH THE GROUP ANSWER
- YOUR TEAM MAY BE STRONGER BY HAVING DIVERSE PERSPECTIVES

## AUTHORITY

- RESPECTFULLY QUESTION AUTHORITY
- ASK FOR AN EXPLANATION
- “THAT’S HOW WE DO IT HERE”, OR “THAT’S HOW WE’VE ALWAYS DONE IT” ISN’T GOOD ENOUGH



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Definition of *rationalize* in English:

## rationalize

Syllabification: ra-tion-al-ize  
Pronunciation: /ˈræʃənəl, ɪz, ˈræʃnəˌlɪz ɹ/

VERB

**INTRANSITIVE**  
attempt to explain or justify (one's own or another's behavior or attitude) with logical, plausible reasons, even if these are not true or appropriate:  
*'She couldn't rationalize her urge to return to the cottage'*

MORE EXAMPLE SENTENCES

SYNONYMS

# RATIONALIZERS

- WHAT REASONS DO RATIONALIZERS GIVE ABOUT WHY THEY ACTED UNETHICALLY?



# RATIONALIZERS

- I DESERVED THAT PROMOTION.
- THAT WASN'T MY FAULT!
- THEY DON'T PAY ME WHAT I'M WORTH.
- WHY SHOULD TOP EXEC'S GET MILLIONS MORE THAN ME?



# RATIONALIZERS

- THEY'LL NEVER MISS IT
- THEY'LL NEVER FIND OUT
- EVERYONE IS DOING IT!



## RATIONALIZERS

- CONVINCING THEM YOU:
  - SHARE VALUES
  - SHARE CONCERNS
  - APPRECIATE THEIR WORTH
    - AS MUCH AS POSSIBLE
  - NOT “EVERYONE” IS DOING IT

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Definition of *greed* in English:

### greed

Syllabification: greed  
Pronunciation: /grɛd /

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NOUN

**Intense and selfish desire for something, especially wealth, power, or food.**

MORE EXAMPLE SENTENCES

SYNONYMS

## GREED

“Every company is just one bad decision or one bad employee away from scandal ... one scandal away from a salacious headline ... and one headline away from a flood of lawsuits.”




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THE WORLD'S BEST JOURNALISM

## Rajat Gupta's Lust for Zeros



By ANITA RAGHAVAN  
Published: May 17, 2013

"When I look at myself, yeah, I am driven by money," he said. "And when I live in this society, you know, you do get fairly materialistic, so I look at that. I am disappointed. I am probably more materialistic today than I was before, and I think money is very seductive." He continued: "You have to watch out for it, because the more you have it, you get used to comforts, and you get used to, you know, big houses and vacation homes and going and doing whatever you want, and so it is very seductive. However much you say that you will not fall into the trap of it, you do fall into the trap of it."

©Forsyth, 2009

## GREED

- DON'T THINK PHILANTHROPY WILL KEEP YOU OUT OF TROUBLE
- BETTER BOARD OVERSIGHT & GOVERNANCE REGARDING SENIOR EXECUTIVES
- HIRE AND PROMOTE FOR MISSION
  - BETTER BACKGROUND CHECKS
- BETTER INTERNAL CONTROLS
- ADDITIONAL REPORTING MECHANISMS
  - PEERS VS. AUDITORS

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Definition of *prank* in English:

### prank

Syllabification: prank  
Pronunciation: /praNGk /

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NOUN

a practical joke or mischievous act.

MORE: COGNATE WORDS, PHRASES, AND QUOTES

SYNONYMS

## PRANKSTERS

- WHAT ARGUMENTS DO “PRANKSTERS USE TO JUSTIFY THEIR BEHAVIOR?



## PRANKSTERS

- I'M ONLY DOING THIS TO BEAT THE SYSTEM.
- I'M SMARTER THAN YOU.
- YOU CAN'T STOP ME.



## PRANKSTERS

- RISK ASSESSMENT
  - VULNERABILITY
  - INTERNAL CONTROLS



## TAKE-AWAYS

### DON'T

- SQUEAK BY LAWS WITH RAZOR THIN COMPLIANCE
- WISH PROBLEMS AWAY, EVEN IF YOU DIDN'T CAUSE THEM
- JUSTIFY CROSSING A LINE BY RATIONALIZING
  - ONCE YOU START DOWN THE SLIPPERY SLOPE, ITS TOUGH TO REVERSE
- SET UNREALISTIC GOALS, WITHOUT GIVING EMPLOYEES THE RESOURCES TO ACHIEVE THEM
- ACCEPT RESULTS BECAUSE THE COMPANY SEEMS TO BENEFIT FROM IMPROPER BEHAVIOR
- ACCEPT ORDERS FROM A SUPERIOR OR TEAMMATES, BECAUSE THAT'S HOW THEY'VE ALWAYS DONE IT

### DO

- ALWAYS GIVE YOURSELF AN ETHICAL BUFFER
- DEAL WITH PROBLEMS YOU'RE AWARE OF ON A TIMELY BASIS
- CONVINCING EMPLOYEES YOU VALUE THEM
  - NOT EVERYONE IS “DOING IT”
- EVALUATE YOUR INCENTIVE STRUCTURE AND TRY TO MINIMIZE THE PRESSURE EMPLOYEES FEEL TO CHEAT
- CONVINCING EMPLOYEES YOU DON'T WANT THEM TO STEAL “FOR” THE COMPANY
- RESPECTFULLY ASK FOR A BETTER EXPLANATION