**ICA 2014 -- Washington, D.C.**

**How International are You? -- Ethics and Professionalism from an International Perspective**

Limited Attendance Workshop

Tuesday, April 1, 2014 – 1:00 – 4:00 ET

**Case Study 1**

**Conflicting International Standards**

* Arthur is a Fellow of the Society of Actuaries in A-land (SAA) He has a multinational client A-co headquartered in A-land.
* Ben is a Fellow of the Society of Actuaries in B-land (SAB). He advises B-co, a subsidiary of A-co, which operates in B-land.
* Catherine is a Fellow of the Society of Actuaries in C-land (SAC). She advises C-co, a subsidiary of A-co, which operates in C-land.
* Dennis is a Fellow of the Society of Actuaries in D-land (DAB). He advises D-co, a subsidiary of A-co, which operates in D-land.
* Actuarial standards in A-land are set by SAA, those in B-land by SAB, those in C-land by the national regulator and those in D-land by the (government appointed) Authority for Actuarial Standards in D-land (AASD)

Arthur prepares a Statement of Actuarial Opinion (SAO) for his client and collates SAOs for the subsidiaries (prepared by the actuaries listed above) to prepare a consolidated SAO.

1. Does Arthur insist that SAA’s standards apply to the SAOs supplied by Ben, Catherine and Dennis?
2. Does Ben insist he uses SAB’s standards?
3. Does Catherine insist she uses her national regulator’s standards?
4. Does Dennis insist he uses AASD’s standards/
5. If these standards don’t conflict should work comply with all relevant standards?
6. What if these standards conflict?
7. What if one set of standards is principles-based and another is very prescriptive?
8. How does Arthur cope with widely differing SAOs?
9. Can Arthur insist on a common template for SAOs submitted to him?
10. Should the client be asked if it has a view over which standard(s) should apply and in what way does Arthur take account of that view?
11. Should the actuaries pay greater or less attention dependent on who is setting the standards in question?

Please consider these questions in the light of your own field of work. For example:

* A-co might be a multi-national insurance company whose reserves need to be reported according to the requirements of the relevant authorities, or
* A-co might be a multi-national corporation for which the finances of its DB pension schemes operating in different countries need to be reported in its consolidated accounts according to the relevant pension accounting standard, or
* You may have your own example.

Please bring your own experience to bear and consider the “Principles” paper Section 2.1 in relation to this case study.

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**Case Study 2**

**Conflicting CPD Requirements**

* Erica is a Fellow of the Society of Actuaries in E-land (SAE). She has a multinational client E-co headquartered in E-land.
* Frank is a Fellow of the Society of Actuaries in F-land (SAF). He advises F-co a subsidiary of E-co, which operates in F-land.

Erica prepares a Statement of Actuarial Opinion (SAO) for her client and receives from Frank an SAO for F-co to prepare a consolidated SAO.

SAE has issued a rule which says that SAOs must be provided by actuaries who are fully qualified members of a member association of the IAA and who must also complete 30 hours of CPD per annum (of an unspecified content). SAF requires 15 hours CPD, but this must be technically relevant to the work the actuary does.

Erica satisfies the SAE requirements but her recent CPD is not focused on this technical aspect of her work, but instead relates to her other tasks. Frank has recorded 20 hours of technical relevant CPD including 10 hours on preparing SAOs like those he submits to Erica and 10 hours on other actuarial work he does.

1. Should Erica and/or her firm and/or her client reject Frank’s SAO and find another actuary in F-land who satisfies the 30 hour requirement?
2. Should SAF take up the issue with SAE on Frank’s behalf?
3. Should the IAA have a guideline on this matter to the extent of its (limited) powers?

Please relate this to your own field of actuarial work and consider the application of CPD principles in Section 2.2 of the “Principles” paper.

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**Case Study 3**

[PLEASE NOTE THAT REFERENCES TO GERMANY AND IRELAND, TO THEIR TAX AND REGULATION REGIMES AND TO LOCAL CODES OF ACTUARIAL CONDUCT WERE DONE PURELY TO CREATE A SENSE OF IDENTITY AND NO CONCLUSIONS SHOULD BE DRAWN AS TO REALITY FROM THE EVENTS AND SITUATION DESCRIBED]

A multinational insurer transacting business in several locations around Europe and around the world operates with its insurance head office in Bonn, Germany.  Recently the executive team have come to realize that generating profits in Germany is not tax efficient, particularly compared to low tax regimes such as Barbados or Dublin.  Consequently the FD has requested that business, both existing and future, be legally transferred from the German Head Office to a new (lightly manned) office in Dublin.

You are an actuary working for the organization in one of its many subsidiaries and, whilst not directly involved in the financial process, you are aware that the valuation assumptions required by the German authorities to transfer the portfolio out of the Head Office account are more onerous than those that have been used in previous regular annual valuation exercises.  Most notably, an actuary working in the Head Office valuation team has advised that the basis setting exercise was much more prescriptive than it has previously been.  In previous years the FD and other directors have been quite insistent that valuation assumptions must not be too “prudent” so as to ensure timely release of profits to shareholders (and perhaps support bonus aspirations).

Having chatted about the situation with colleagues in Bonn, it is clear that the insurer will benefit from being even more prudent with the assumptions in the transfer process, as this will result in profits emerging in the new tax regime where both the valuation requirements and tax rates are less onerous. Expectations are high that attractive annual bonuses will be received by staff as a result of the transfers.

On further investigation you discover that the German authorities require that, when business transfers from the German jurisdiction to any other, the assumptions used for calculating the value at transfer (by the receiving entity) are “fair”, or the transfer will be refused (or the profits will be taxed in both regimes).  You believe, although, with limited understanding of Irish law, you are not entirely uncertain, that the Irish regulatory authorities may impose a similar requirement. You have additionally recently become aware of new professional standards in Ireland which appear to place stringent requirements on Irish actuaries in relation to the disclosure and handling of conflicts of interest (including potential conflicts of interest), and on the use of independent peer review in relation to 'material' valuations.

Looking at the basis used, you have reservations as to whether the German (or, for that matter, Irish) Authorities understand the leveraged implications of some of the assumptions. You are uncertain as to the relevance, if any of the Irish professional standards.

1. What possible professional / ethical issues arise from this situation?
2. What is the possible relevance, if any, of the Irish professional standards?
3. What are your responsibilities in choosing “prudent” or “reasonable” assumptions rather than those dictated by the FD?
4. If the FD insists on using the assumptions that you do not believe are appropriate, do you have a professional responsibility to either refuse to perform the calculations requested or do them as requested and disclose their disagreement/opinion in any actuarial communications? Would the answer be different if you had reason to believe the financial director did not intend to distribute your complete report (and therefore any qualifications may well be withheld from others) and only provide your end results?
5. To whom do you owe a duty of care
   1. The Board of Directors of the multinational insurer?
   2. The multinational insurer employees?
   3. The shareholders of the multinational insurer?
   4. The Germany insurance authorities?
   5. The Irish insurance authorities?
   6. The general public?
   7. Actuarial associations in Germany, Ireland and the IAA?
6. Is your approach/answer to questions 4 and 5 different if, rather than working for the multinational, you are a consultant?

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**Case Study 4**

You work for a multinational reinsurer that has recently experienced very poor performance and is being broken up for resale – some sections have a realistic chance of being hived off as independent going concerns provided new (owner) capital support can be found .  The local UK operation, for which you are working, has been soundly profitable and has managed to retain most of its business and is indeed continuing to secure new treaties.  As a result of parent company difficulties there is internal discussion on the impending need to withdraw parental guarantees for losses on future new business, and new capital injections from the parent company for the UK office (needed to support future growth) will be severely curtailed.  Currently the UK Office is solvent, but only has sufficient capital to meet the solvency capital of current business and that which will be required for expected new business volumes over the next 6 months.

* 1. What professional or ethical issues arise for the UK actuary, recognizing that that the parent company has advised it may not be able to provide new capital and/or parental guarantees for future losses?
  2. Imagine that new professional standards place obligations on UK actuaries in relation to the importance of 'whistle-blowing', particularly in circumstances where clients have, or are likely to, suffer detriment. As a UK actuary, what bearing does this have on the judgement you exercise in this situation.
  3. Now imagine that the same new professional standards had in fact been introduced in Switzerland, where one of the subsidiaries most likely to suffer from the decision to withdraw parental guarantees is based. You are a UK actuary. What is the relevance of the Swiss standards?