

Actuaries Are Key to Ethical Practices

BUILDING TRUST WITH CONSUMERS TAKES HARD WORK, dedication, and a consistency of purpose and performance. Fostering an ethical environment that establishes consumer trust and confidence takes a very long time. And it means creating a corporate culture of ethics that permeates every corner of a company.

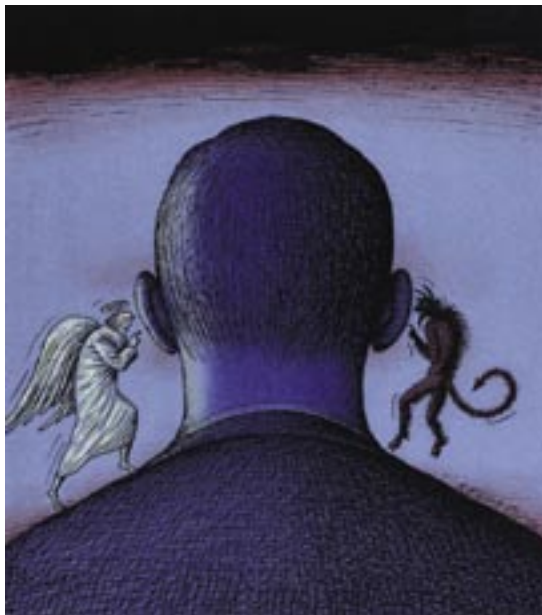
What does this mean for actuaries?

Actuaries have a large part to play in the ethics of a life insurance company. While it may not be apparent to some, more people rely on the advice and direction of actuaries than on any other insurance professional.

Actuarial professionals are critical to the success of any company and the industry as a whole. Each actuary must respond to a great many competing expectations. Companies want to optimize their performance. Regulators are looking for technically fair assessments. But what about the potential policyholder?

Certainly the actuary has an obligation to the company or client to make sure the promises made with a product can be met. But going beyond what's technically fair and ethical in product design, actuaries must also keep consumers in mind. For instance, a complex product that may appear to an actuary to be entirely fair and technically correct may not be transparently fair to the consumer. Certainly the actuary isn't the only member of the team—but if there is a possibility of misunderstanding, it's prudent for the professional, ethical actuary to point that out and discuss these concerns with the product development team. Another excellent resource for ethical questions is the Actuarial Board for Counseling and Discipline (ABCD). It is always better to raise the small questions early before they result in harmful unintended consequences later on in the marketplace.

GARY EISENBARTH IS PRESIDENT AND CEO OF THE MUTUAL TRUST FAMILY OF COMPANIES AND IS CHAIRMAN OF THE INSURANCE MARKETPLACE STANDARDS ASSOCIATION. HE LIVES IN OAK BROOK, ILL.



This is just the type of situation addressed under the actuaries' Code of Professional Conduct. This code stresses that actuaries must act honestly and that they should take steps to ensure that their actuarial com-

munications are clear and appropriate and that their work is not used to mislead other parties.

This type of code resonates with the Insurance Marketplace Standards Association (IMSA). Our companies adhere to a stringent code of ethical market conduct. Our focus is not simply finding specific technical violations but rather fostering comprehensive systems of policies and procedures put into place to address market conduct compliance issues. This creates a company culture of high

ethical standards, an effort that means a commitment from employees throughout a company.

Working together, IMSA and actuaries can help companies strive for and achieve higher standards. For instance, it is critical that actuaries "sign off" on illustrations disclosing the basic features of a life insurance product consistent with IMSA standards. In addition, actuaries should become more involved in considering compliance implications when developing products. Actuaries should take on the task of promoting full disclosure of surrender charges or other penalties that may be associated with their life insurance and annuity products.

The U.S. life insurance industry suffered serious damage in the 1990s with large insurers facing litigation and regulatory action charging that sales representatives were misrepresenting products. The industry has made considerable progress in restoring the damage done to consumer confidence. The American Customer Satisfaction Index for the last quarter of 2002 showed that consumer satisfaction for life insurance was 79 percent. And the industry itself seems to be recognizing the bottom-line

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value of consumer satisfaction. In his commentary on the ACSI data, Professor Claes Fornell, director of National Quality Research Center, University of Michigan Business School, noted that “there appears to be a greater appreciation in life insurance . . . for the risk that future earnings power may be eroded if customers are less than satisfied, even if there are actual increases in short-term earnings.”

Ethics do matter to life insurance consumers. According to a recent Harris Interactive nationwide telephone survey sponsored by IMSA, if they were shop-

ping for life insurance today, 78 percent of respondents would be likely to buy from a company belonging to an organization whose members must meet high ethical standards in marketing, selling, delivering, and servicing their products. Belonging to IMSA is not just the right thing to do; it is also good business.

In addition, 94 percent of respondents say that a life insurance company’s commitment to ethical business practices is important to them. That ranks higher in importance than a company’s financial rating (90 percent).

The industry must continue to work

at all levels to develop and implement policies and procedures to promote sound market practices. Just as IMSA is considered by many to be the primary organization promoting ethics in the life insurance industry, so should actuaries remain vigilant with regard to promoting ethical practices in their work within their companies. To maintain and increase consumer confidence, insurers must do all they can to create a high standard of conduct at all levels of their organization. A company’s viability and success in an increasingly dynamic financial services market depend on it. ●

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