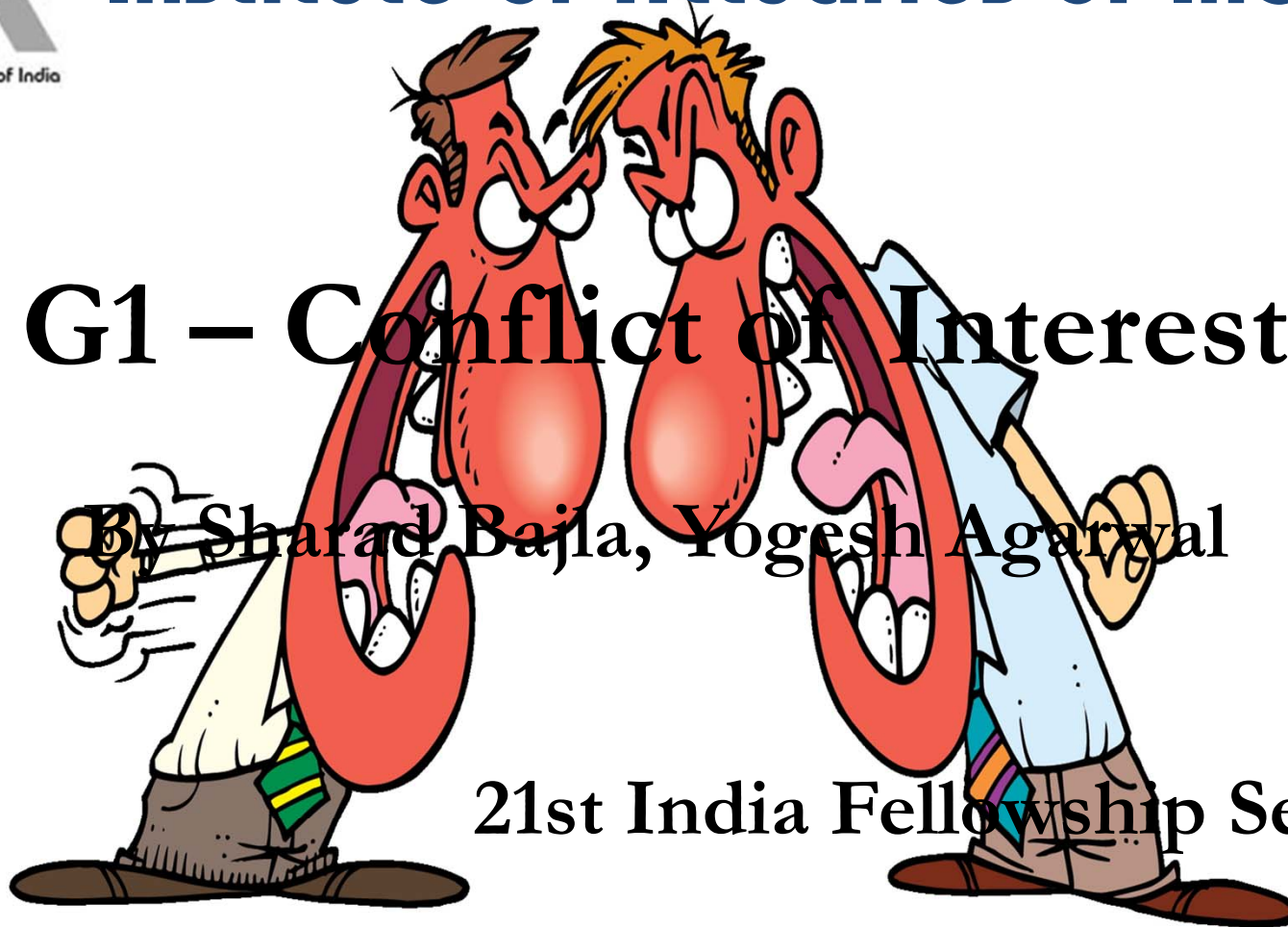




# Institute of Actuaries of India

## G1 – Conflict of Interest

By Sharad Bajla, Yogesh Agarwal



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*Indian Actuarial Profession*  
*Serving the Cause of Public Interest*

# Conflict of Interest – The Concept



*"Yes, I am employee of the month again. And yes, I'm the one who chooses the employee of the month. And no, I don't see a conflict of interest."*

# Case Study 1

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## Until Last Year

Actuary at  
*Overexcited Insurance Company*

Role: Advising on commutations

# Commutation



- Insurance policy is cancelled, with the agreement of both parties
- No further claims can be made under the policy
- Insurer normally pays an amount of money to the policyholder



# Case Study 1



## Until Last Year

Actuary at  
*Overexcited Insurance Company*

Role: Advising on commutations

## Last Year

*Overexcited Insurance Company* goes  
into run-off

You are made redundant!

## Now

Working as a consultant

*Ever Alert Insurance Company* has requested advise on commutation, in particular the commutation with *Overexcited Insurance Company* on which you have worked



Can you accept the job?



# Case Study 2.1



## Until Last Year

Working as a consultant

One of the roles: Advising on commutations at *Overexcited Insurance Company*

## Now

Working as a consultant

*Ever Alert Insurance Company* has requested advise on commutation, in particular the commutation with *Overexcited Insurance Company* on which you have worked

**Can you accept the job?** ✓ ✗

# Case Study 2.2



## Until Last Year

Working as a consultant

A **colleague provided advice** on commutations at *Overexcited Insurance Company*

## Now

Working as a consultant

*Ever Alert Insurance Company* has requested advise on commutation, in particular the commutation with *Overexcited Insurance Company* on which **your colleague worked**

**Can you accept the job?** ✓ ✗

# Case Studies – Key Differences



Case Study 1	Case Study 2.1	Case Study 2.2
Earlier involvement directly with the insurance company	Earlier assignment was in a consulting (hence advisory) capacity	Same as 2.1
No current relationship with <i>Overexcited</i>	Possibly a current relationship with <i>Overexcited</i>	Same as 2.1
Governing Contracts: <ul style="list-style-type: none"> <li>• Previous Employment Contract</li> <li>• Prospective Engagement Contract</li> </ul>	Governing Contracts: <ul style="list-style-type: none"> <li>• Previous Engagement Contract</li> <li>• Prospective Engagement Contract</li> </ul>	Same as 2.1
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# Professional Conduct Standards



## 5.1

Clients are entitled to assume that advice given by an actuary is unaffected by interests other than those of the client, taking account of any identifiable professional or legal duty of care of the client in respect of a third party.

## 5.2

If there is or might appear to be a conflict of interest between two or more clients of an actuary or of the actuary's firm, or a conflict between a client and the member or the actuary's firm, **the actuary must consider the nature and extent of the conflict** and whether it is such as to make it improper for the actuary to give advice to one or more of the clients involved in the conflict.

## 5.3

In the event of any such conflict or apparent conflict of interest, **the client or clients involved must be notified at the earliest opportunity** and if any advice given to a client is, or will be, influenced by interests other than those of that client or by any constraint other than that imposed by professional guidance or other guidance, this must be disclosed in the advice.

## 5.4

If there might be a conflict between the interests of different clients or previous clients of the actuary or of the actuary's firm, the actuary must have proper regard to their respective interests and in particular **must not communicate information within the actuary's firm which** the actuary has reason to believe **might harm the interest of any client or previous client.**

# The Actuaries Act, 2006



- An Actuary in practice shall be deemed to be guilty of professional misconduct, if he-  
(10) discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of such client, or otherwise than as required by any law for the time being in force
- A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person,-  
(3) discloses confidential information acquired in the course of his employment except as and when required by law or except as permitted by his employer.

# Conflicts



	Case Study 1	Case Study 2.1	Case Study 2.2
Access to confidential information about <i>Overexcited</i>	✓	✓	✓
Bias towards earlier assumptions	✓	✓	✗
Possible ill feeling towards <i>Overexcited</i>	✓	✗	✗
Maintaining relationship with both clients	✗	✓	✓
Rejecting the job would mean: <ul style="list-style-type: none"> <li>• Loss of revenue</li> <li>• Loss of client relationship</li> </ul>	✓	✓	✓

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# Other Stakeholders

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- Policyholder is directly affected by the value of commutation
- Other clients will lose confidence in the integrity of the consulting firm
- Integrity of Actuarial Profession
- Regulatory interference
- Chinese walls are only effective if implemented strongly among the employees of the firm

# Solutions to Address Conflict



- Reject the assignment
- Agree to offer general advice on commutation but refrain from indulging in the specific portfolio
- Discuss the assignment with both parties and gain their approval
- In Case Study 1 – offer the assignment to a colleague in your firm and ensure Chinese walls are in place



# Thank You!

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