

Comply With What?!

The Code's 2nd Principle

Professionalism Committee



Introduction

Stephanie Lam – Professionalism Committee

- Purpose of Session
- The Professionalism Committee
- Three Segments
 - How do we know what to comply with?
 - What happens when compliance is a moving target?
 - What happens when we are exploring new territory?



How To Know What To Comply With?

Martin Mulcare

Professionalism Committee

Discussion Questions:

1. How do you know what to comply with?
 2. How do you know when it has been updated?
- (Hint: Think about both actuarial and broader guidelines)



Please scan the QR code to share any comments and questions

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When Compliance is a Moving Target?

Craig Price

Chair of The Data Science Practice
Committee



Compliance and Data Science / AI

The Guardian
A decade of making a difference

Colombian judge says he used ChatGPT in ruling

Juan Manuel Padilla asked the AI tool how laws applied in case of autistic boy's medical funding, while also using precedent to support his decision

Luke Taylor in Bogotá

Fri 3 Feb 2023 13.53 AEDT



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Two relevant modes of practice:

1. Actuaries using AI to formulate their advice
2. Actuaries building AI-enabled solutions for clients

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Considerations for discussion:

1. **Actuaries using AI to formulate their advice**
 - The actuary's advice isn't compromised by the use of AI.
 - The actuary's advice is relevant, best practice and efficiently created.
2. **Actuaries building AI-enabled solutions for clients**
 - The solutions are of high quality and create sustainable value for clients
 - accuracy, fit for purpose, efficient, maintainable
 - The solutions meet legal and regulatory requirements
 - privacy, discrimination, (and possibly in the future, AI legislation)
 - Above minimum legal and regulatory requirements, that the solutions meet ethical and sustainability standards as aligned to the Institute's values
 - bias, transparency, 'do no harm', net benefits etc



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State of AI Legislation in Australia



Australian Government
Department of Industry,
Science and Resources

[Consultation hub](#) > Supporting responsible AI: discussion paper

Supporting responsible AI: discussion paper



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What professional guidance currently exists?

1. Code of Conduct
2. PS 1 – CPD
3. PG 1 – General Actuarial Practice
4. Practice Area Specific AI Guidance
 - Information Note: Artificial Intelligence and Discrimination in Insurance Pricing and Underwriting (December 2022)
5. Generic AI Guidance
 - Technical Paper: Automated Decision-Making Systems (October 2020)



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What other AI guidance exists externally?

Australia's Artificial Intelligence Ethics Framework



1

Human, societal and
environmental
wellbeing



2

Human-
centred
values



3

Fairness



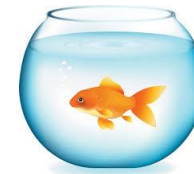
4

Privacy
Protection



5

Reliability
and Safety



6

Transparency
& Explainability



7

Contestability



8

Accountability



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What other AI guidance exists externally?

- Many other emerging Ethical and Risk frameworks globally, eg
 - (US) NIST's AI Risk Management Framework
- OWASP ('Open Worldwide Application Security Project') – AI risks on privacy and security

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Where to next...?

- Continue to watch for, and respond to emerging AI-related legislative changes
- Upgrade Code of Conduct (Guidance Notes)?
- Revision to the Automated Decision-Making Systems TP in 2024.
- Member communication & training
- Leadership by Practice Committees, supported by DSPC



When Compliance is a Moving Target?

Ramona Meyricke

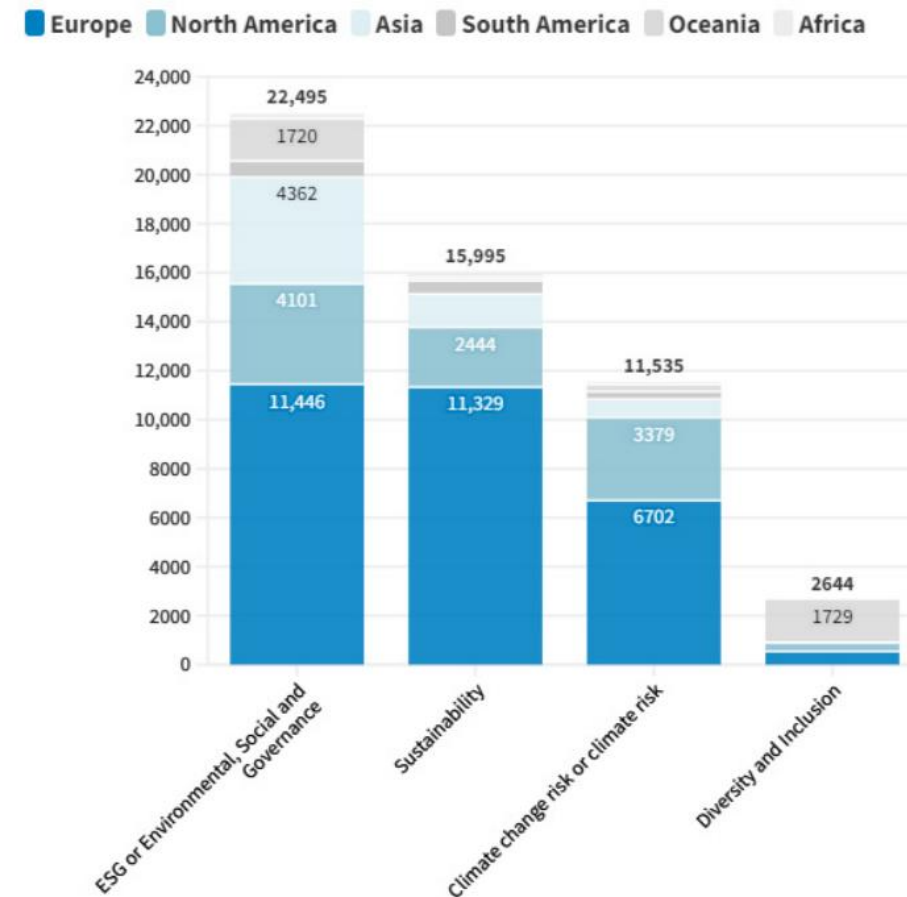
Chair of the Climate and Sustainability
Working Group



The emergence of ESG regulation...

- Climate change poses a significant risk to the environmental, social and economic systems on which our lives and livelihoods depend.
- Historically, most attention on ESG was on the 'Environment' aspect with a primary focus on climate risk.
- But global regulators have increasingly focused on issues associated with 'S' and 'G'
- As regulator, investor and/or customer attitudes shift from solely prioritising returns to considering a company's ESG footprint, the financial services industry is undergoing a transformation.
- In total, ESG has been referenced 22,495 times across regulatory content from 2018-2022, this includes in-force regulations, blogs, speeches, and consultations [1].

ESG-related references by region and topic 2018-2022

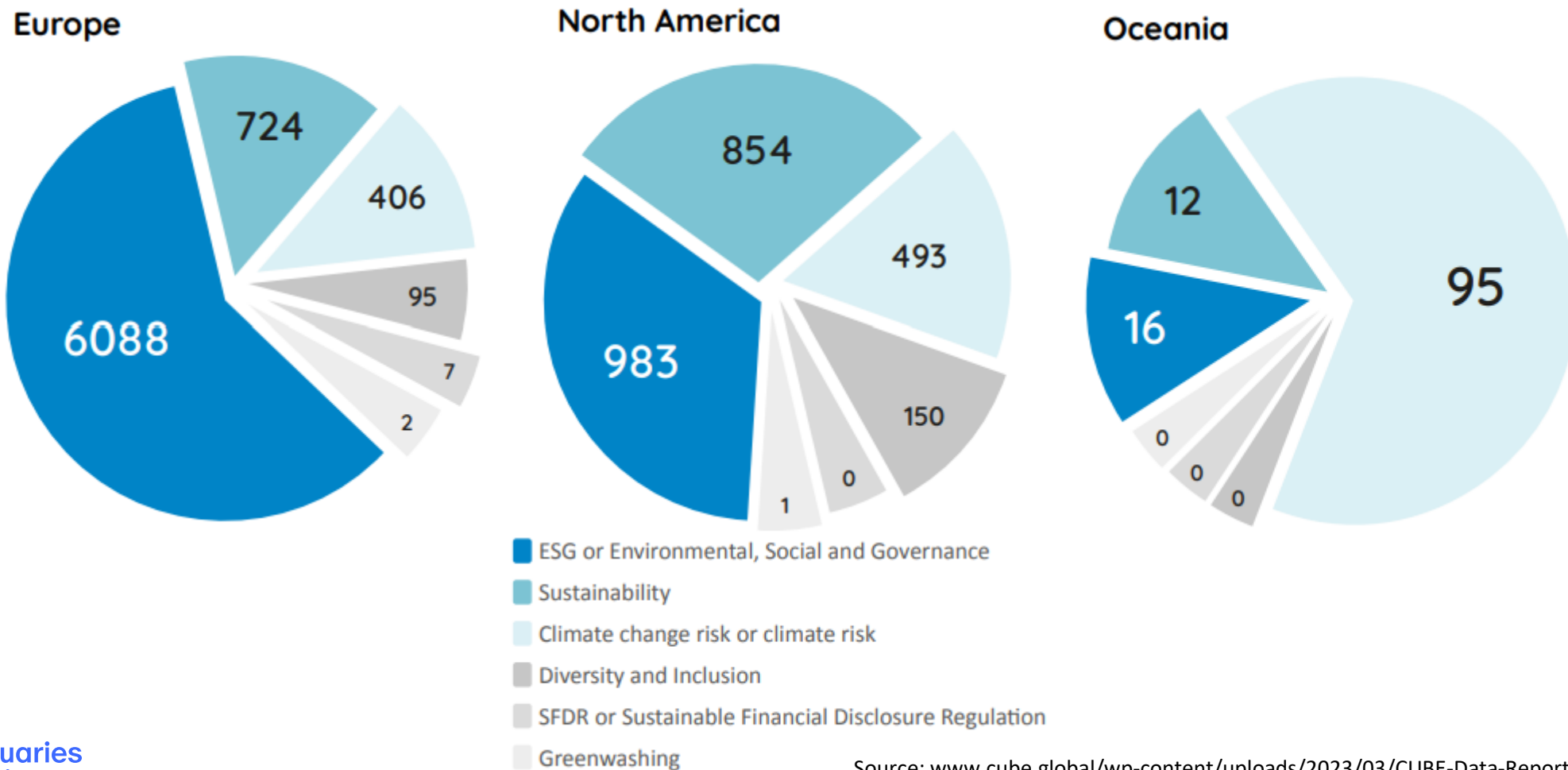


Source: www.cube.global/wp-content/uploads/2023/03/CUBE-Data-Report_The-Evolution-of-ESG.pdf



... differs by region

Total of in-force regulations referencing ESG concepts broken down by region 2018-2022

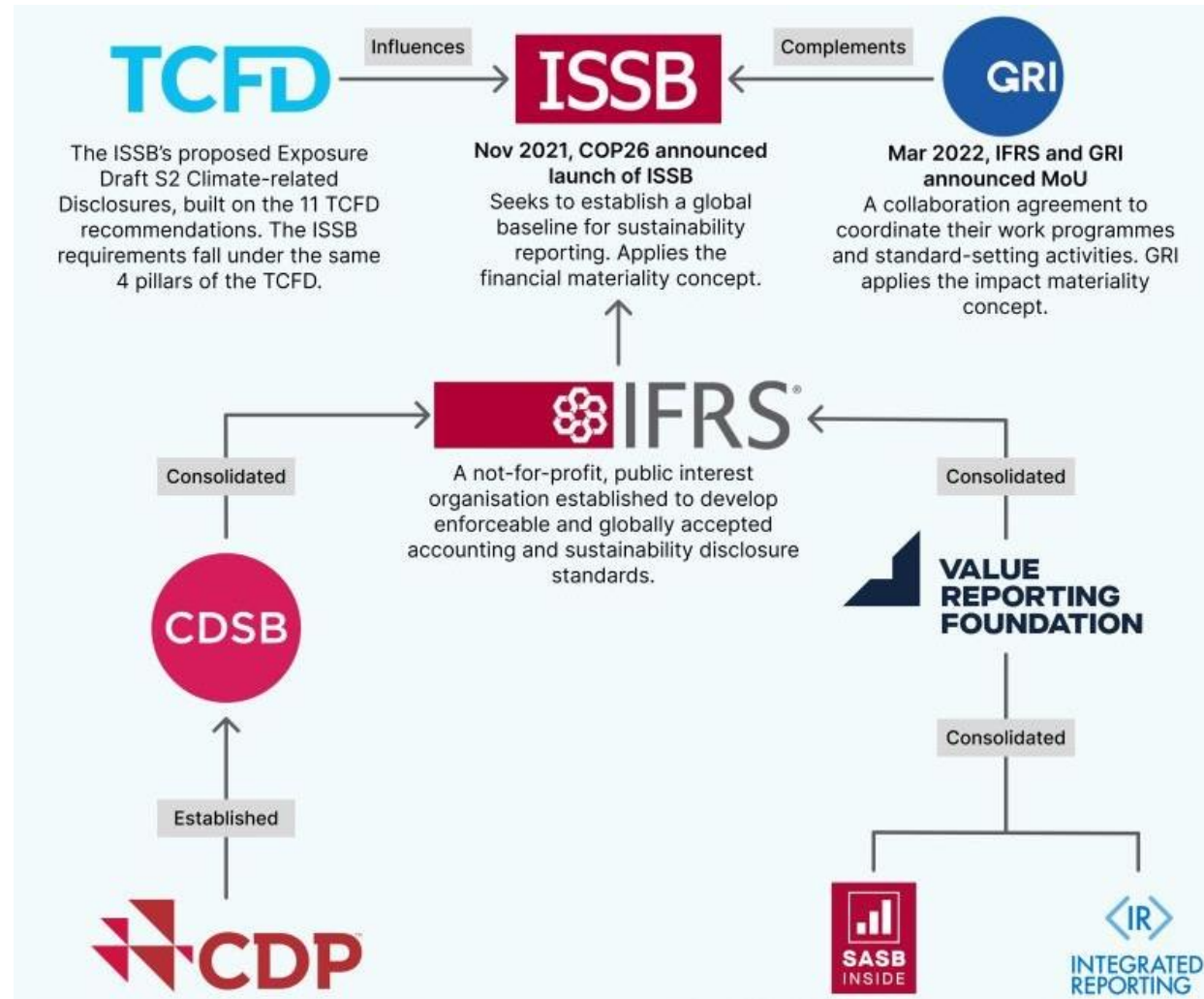


Regulations vary by region but there is a need for interoperability

- Climate change is a global problem, and financial markets are global, but the regulations for different countries vary.
- There is a need for interoperability among these standards and regulations to reduce complexity for companies. There have been attempts towards a global approach in many areas.
- The Network for Greening the Financial System (NGFS) - a group of central banks and supervisors whose purpose is to help strengthening the global response to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments.
- A recent major development has been the creation of the IFRS International Sustainability Standards Board (ISSB) in 2022 with goals to:
 1. Develop standards for a global baseline of sustainability disclosures;
 2. Meet the information needs of investors;
 3. Enable companies to provide comprehensive sustainability information to global capital markets;
 4. Facilitate interoperability with disclosures that are jurisdiction-specific and/or aimed at broader stakeholder groups.

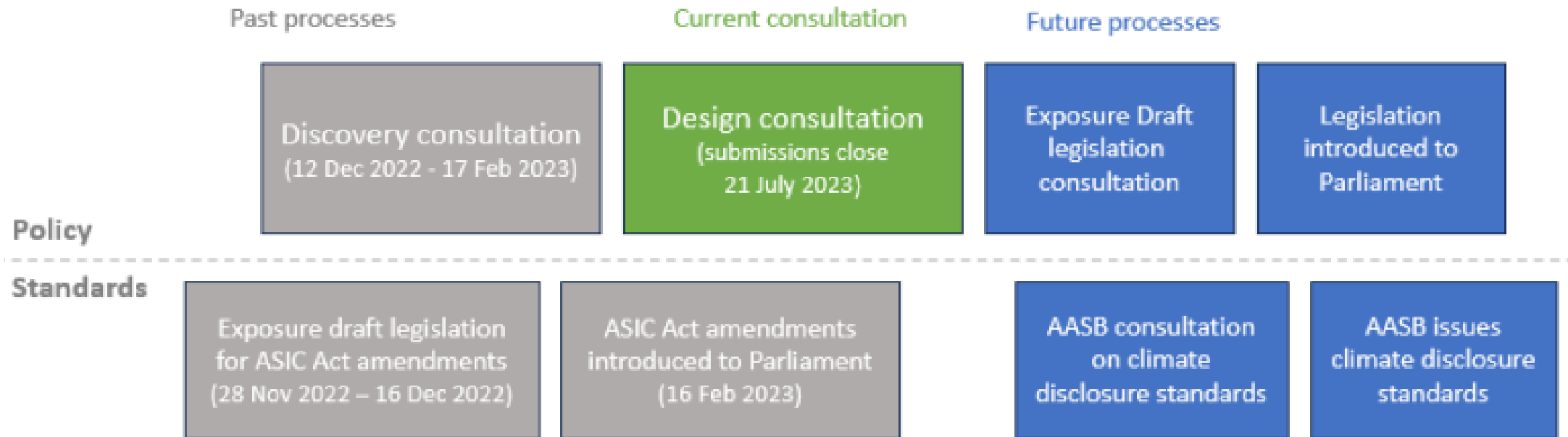


A rapidly evolving ESG reporting landscape...



... with the regulatory environment in Australia also evolving

The Australian Government's public processes in relation to climate-related disclosures



Source: <https://treasury.gov.au/sites/default/files/2023-06/c2023-402245.pdf>



Emerging regulation creates risks for financial institutions

- **Greenwashing** is the practice of misrepresenting the extent to which an entity, product or strategy is environmentally friendly, sustainable, or ethical.
- Listed companies, and superannuation funds and others are increasingly making claims about their ESG credentials. Ensuring that such claims are accurate is a regulatory priority for ASIC.
- Between 1 July 2022 and 31 March 2023, ASIC made the following greenwashing interventions:
 - 23 total corrective disclosure outcomes
 - 11 infringement notices issued
 - 1 civil penalty proceeding commenced [2]
- These actions related to net zero statements and targets, use of terms such as ‘carbon neutral’, ‘clean’ or ‘green’, fund labels, and scope and application of investment exclusions and screens.
- **Greenhushing** refers to companies purposely keeping quiet about their sustainability goals, even if they are well-intentioned or plausible, for fear of being labeled greenwashers.
- Jason Jay, director of the Sustainability Initiative at MIT Sloan notes *“Among big, publicly-traded companies in the US and Europe, well-established sustainability norms would dull the impact of greenhushing, ... but among smaller businesses in these places, and for bigger firms in other regions, those norms are less established; “In that sense greenhushing could be a problem, if it slows the expansion of the norms into that new terrain.”[3]*





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Thank you

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References

- [1] [https://www.cube.global/wp-content/uploads/2023/03/CUBE-Data-Report The-Evolution-of-ESG.pdf](https://www.cube.global/wp-content/uploads/2023/03/CUBE-Data-Report-The-Evolution-of-ESG.pdf)
- [2] [Report REP 763 ASIC's recent greenwashing interventions](#)
- [3] <https://www.weforum.org/agenda/2022/11/what-is-greenhushing-and-is-it-really-a-cause-for-concern/>

