

# CPD Roadshow 2015

The Tiger in the Room  
Presented by  
Dr Simon Longstaff



Actuaries  
Institute























**CENTRAL BANKS**

**FOLLY**

**WE ARE FOOLISH**

**STOCK MARKETS**

**WE FOOL OURSELVES**

**MORTGAGE-BACKED SECURITIES - CDOs - CDS - CREDIT DERIVATIVES**

**WE FOOL YOU**

**LENDERS**

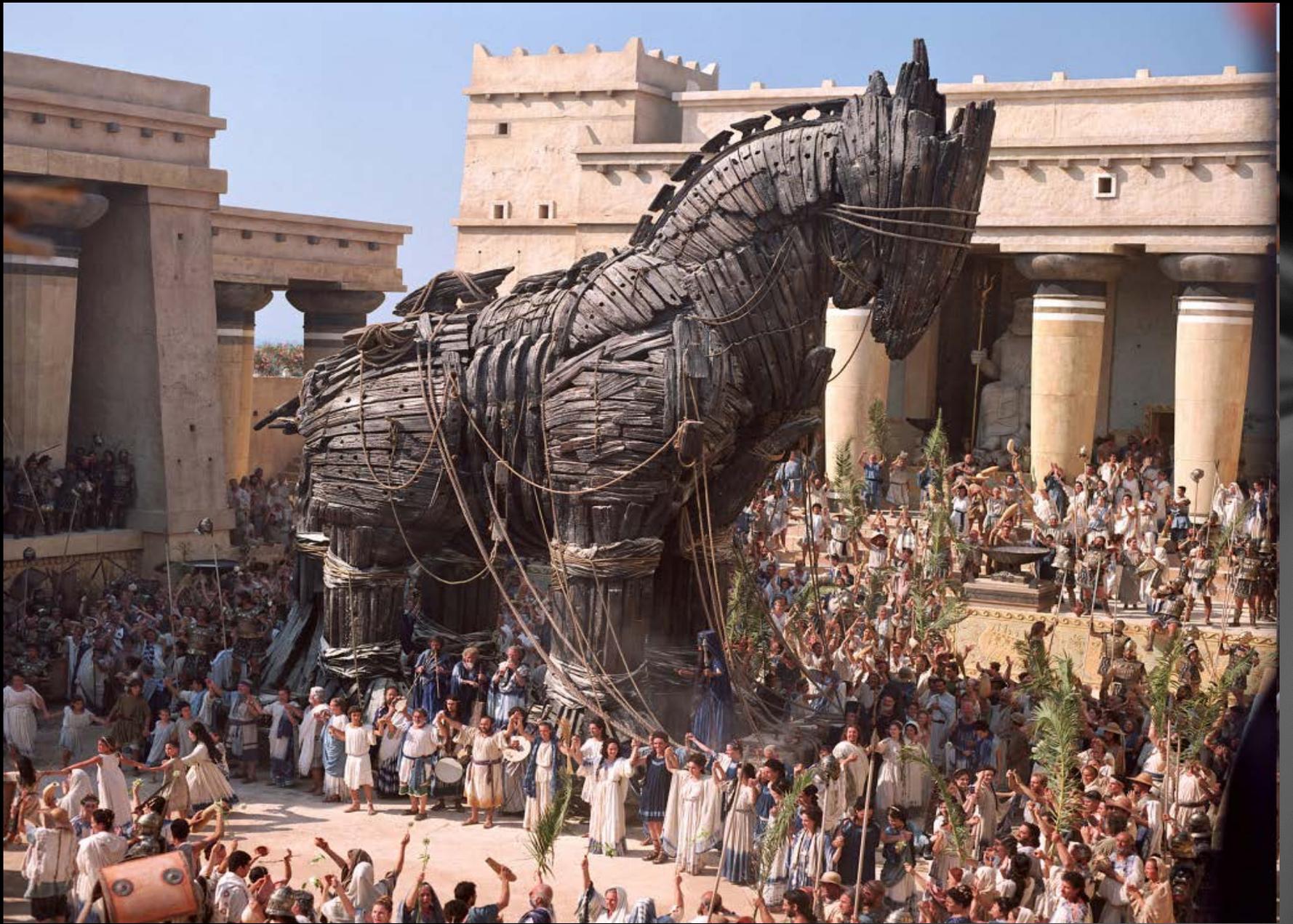
**WE ARE FOOLED**

**SPREADING  
THE  
RISK**

**PYRAMID OF SUB-PRIME LENDING**

© 2008 THE WALL STREET JOURNAL. ALL RIGHTS RESERVED. 10.10.08

# On Folly





The BLOODY MASSACRE perpetrated in King-Street BOSTON on March 5<sup>th</sup> 1770 by a party of the 29<sup>th</sup> REG<sup>t</sup>



Engrav'd Printed & Sold by PAUL REVERE BOSTON







**CENTRAL BANKS**

**FOLLY**

**STOCK MARKETS**

**WE ARE FOOLISH**

**MUTUAL FUNDS - FUNDS - INSURERS - PENSION FUND**

**WE FOOL OURSELVES**

**LENDERS**

**WE FOOL YOU**

**WE ARE FOOLED**

**SPREADING  
THE  
RISK**

**PYRAMID OF SUB-PRIME LENDING**

# More Middlemen Feel Belt Tighten Around Them

By Steven Pearlstein

Wednesday, October 20, 2004; Page E01

Two observations about the unfolding insurance scandal:

The first has to do with the **willful blindness** on the part of so many people to business practices that don't even come close to passing the ethical smell test. One day, the practice of insurance companies paying "contingent commissions" to brokers is so commonplace that Wall Street analysts can calculate what percentage of revenue and profit they represent for the big brokerage firms. Then, Eliot Spitzer comes along and points out the obvious conflict of interest for brokers whose only job is supposed to be looking out for the best deal for their customers. The next day, they're history.

wilful blindness?





# shifting perceptions ...

The monkeys on which he worked became '**research subjects**'; the electric shocks he gave them were called '**negative reinforcement**' and their vain efforts to escape were classified as '**avoidance behaviour**'. As Barnes says: 'During my sixteen years in the laboratory the morality and ethics of using laboratory animals were never broached in either formal or informal meetings prior to my raising the issues during the waning days of my tenure as a vivisector'.

# conditioned blindness?

# four categories of self-deception ...

**legalism**, the inability to imagine moral obligations beyond the law;

**tribalism**, or the belief that the company is always right;

**moral relativism**, the excusing of unethical practices by viewing business as "a game" and oneself as "a role";

**scientism**, the elevation of science-including management science-to a position of unquestioned authority

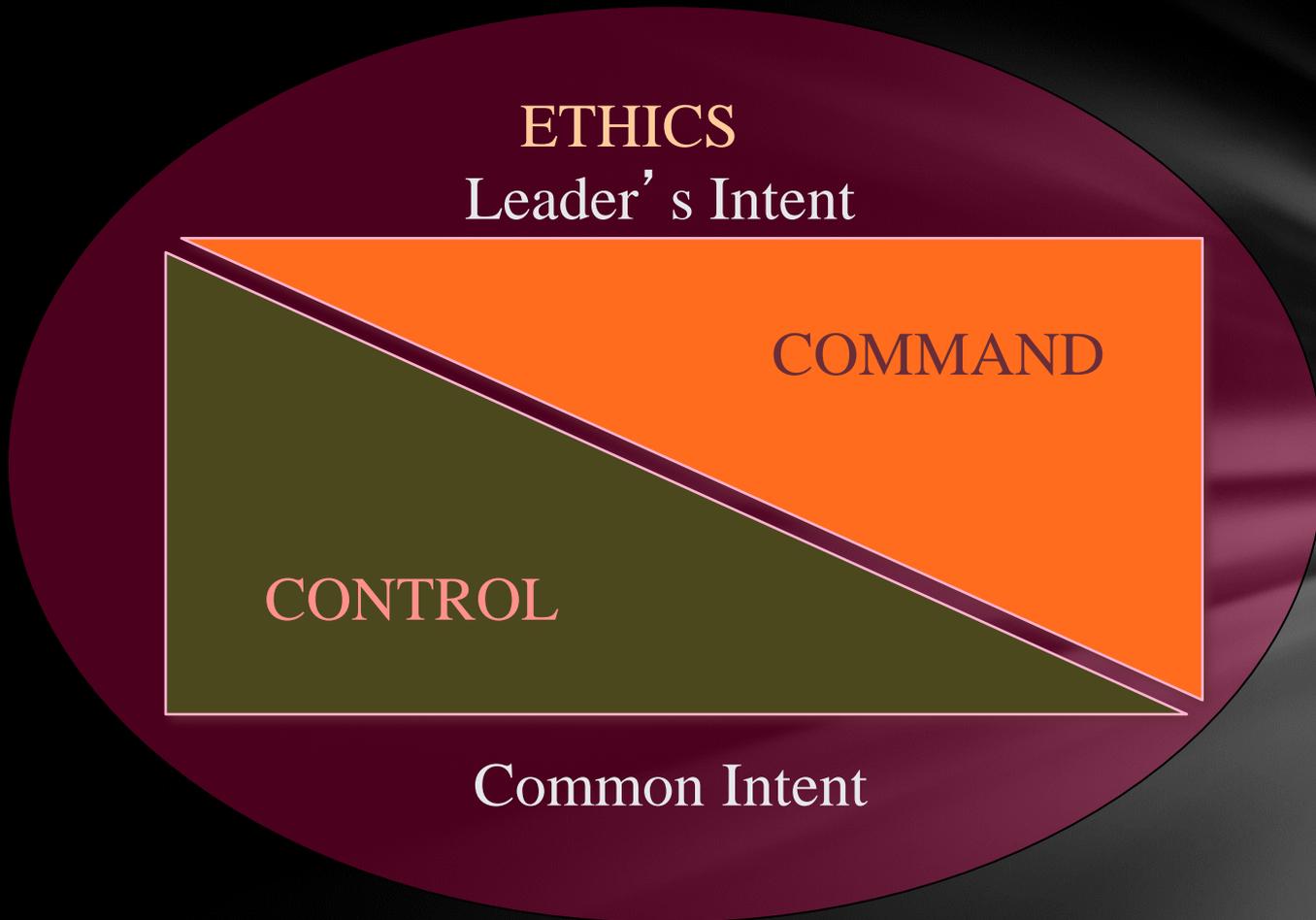
- John Knapp, 1999

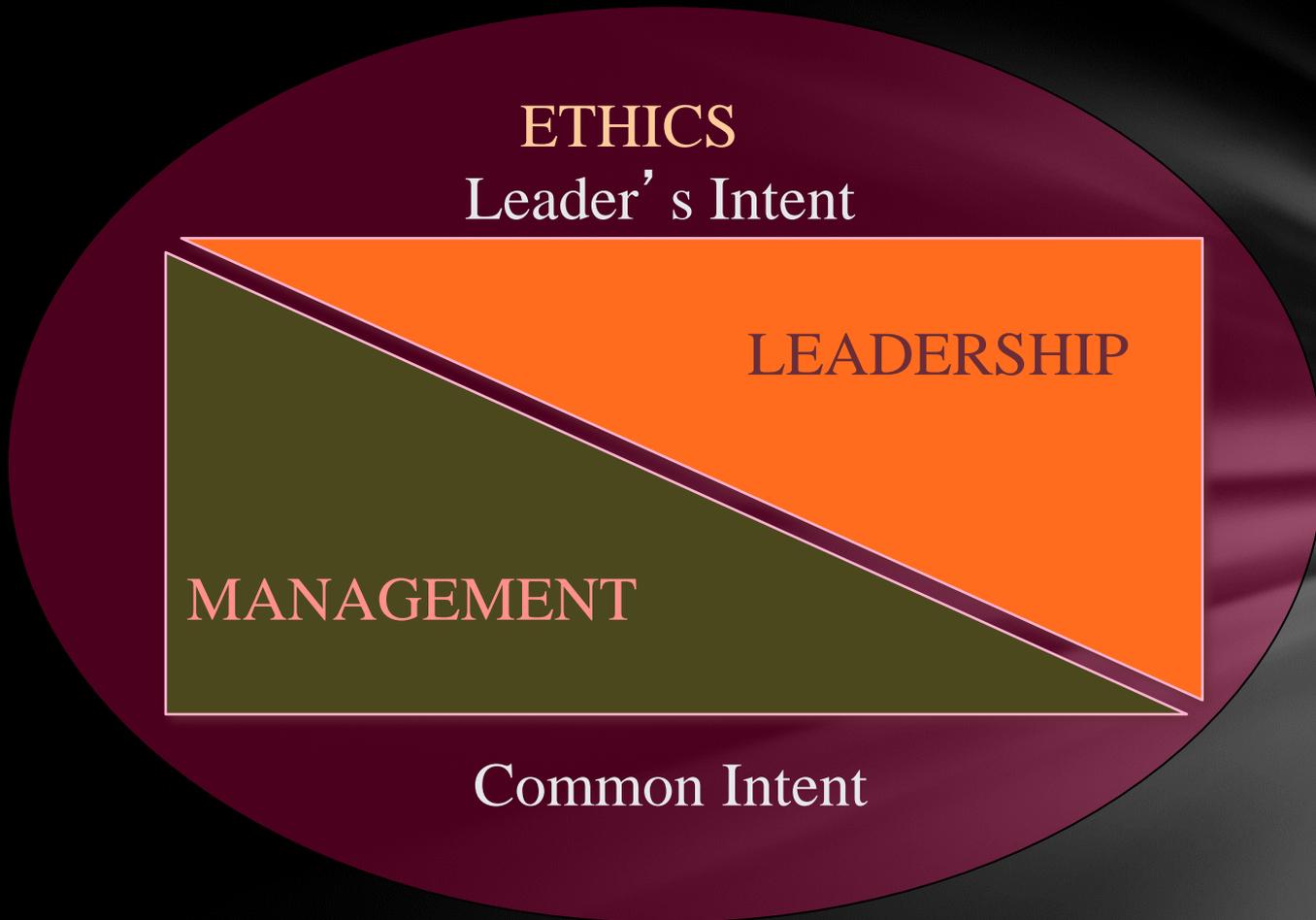






# learning to see tigers





# a definition of leadership ...

... the process of influencing others in order to gain their willing consent in the ethical pursuit of missions

*Source: Australian Defence Doctrine oo.6*

*22 March 2007*

governance ...

the process by which boards ensure that individuals within the organisation (and the organisation as a whole) consistently make decisions that are good and right.

# the architecture of choice

# ETHICS

What ought one to do?

what's good

what's right

values

liberty  
harmony  
success

principles

golden rule  
sunlight test  
Conscience

the architecture of choice

# ethics as organisational DNA

alter the DNA and get a different organism

organisational DNA must be actively and consciously  
expressed

mutations are common





# the two great enemies of ethics

hypocrisy

unthinking custom and practice

# constructive subversion

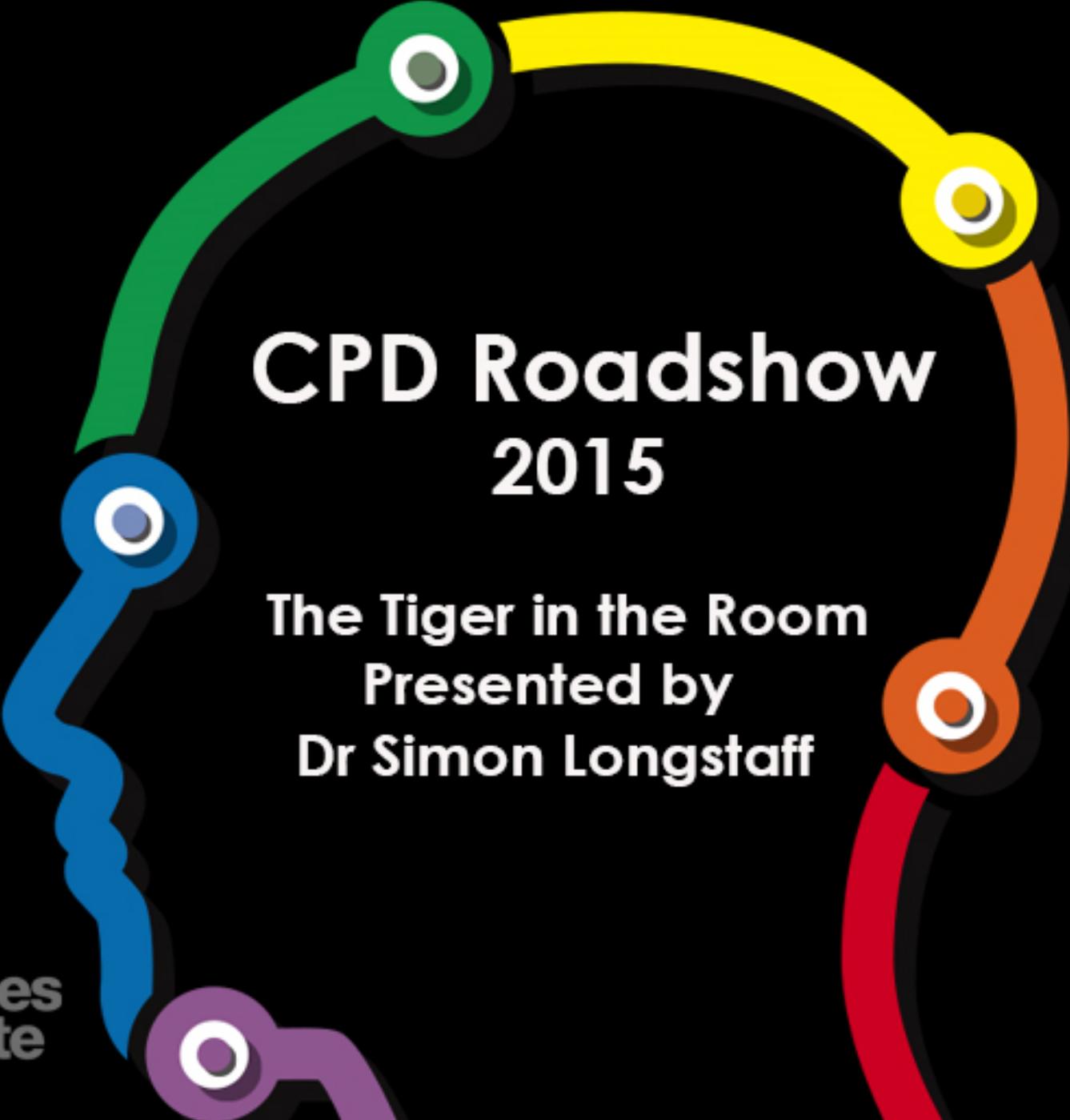
the unexamined life is not worth living

*What ought one to do?*

# QUESTIONS?

- Be as critical as you care to be.
- No topic is 'off limits' – not even matters not canvassed in the presentation.





# CPD Roadshow 2015

The Tiger in the Room  
Presented by  
Dr Simon Longstaff



Actuaries  
Institute