



**Global professional issues  
currently addressed by the IAA**

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**Presentation to the  
5<sup>th</sup> Global Conference of Actuaries  
co-hosted with  
ASI and FICCI**

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**Secretary General, IAA**

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# A truly global profession

- The actuarial profession, with the IAA regrouping the local associations, is the most truly globally organized profession.
- “*Le Comité Permanent des Congrès d’actuares*” founded in Brussels 1895 as an association of individual actuaries was renamed IAA in 1968
- Deeply rooted in all continents since over a century, the IAA enjoys a high credibility, thanks to the quality of the contributions of many volunteers supporting the professional activities of the local and international associations
- The IAA is recognized as a non-profit, non-political and non-governmental organization by the United Nations and by the International Labor Office.



# Associations organized before 1900

- Institute of Actuaries, London 1848
- Faculty of Actuaries in Scotland 1856
- Association of Mathematical Advisers  
in Dutch Life Insurance Companies 1888
- Actuarial Society of America 1889
- French Institute of Actuaries 1890
- Royal Association of Belgian Actuaries 1895
- **International Actuarial Association 1895**
- Italian Association for Actuarial Science 1897
- Actuarial Society of Australia 1897
- Institute of Actuaries of Japan 1899



# The profession responds to globalization

- **Initially, the IAA and its Sections were more focused on serving individuals regarding the scientific aspects of the profession**
- **The creation of IFAA in 1995 responded to the need to act globally on behalf of the profession and to give special attention to professional and education standards for the associations**
- **IAA re-organized in 1998 as an association of associations, incorporated under Swiss law; IFAA dissolved.**
- **Full member associations pay IAA fees; all their fully qualified actuaries are automatically IAA members**



# Principle of subsidiarity

- **To be effective globally the IAA focus is on strategies and programs that require international coordination or are handled more efficiently across boundaries**
- **IAA is complementary to local and regional associations; costs reduced by avoiding duplications or overlap**
- **Sovereignty of full members associations protected by voting mechanism; Council Agenda to be posted on web site 90 days in advance (60 days for more routine items)**



# Governance

- **Full control vested in Council**
- **Member associations may appoint a delegate to each Committee, except for Executive, Audit, and Nominations Committees**
- **Delegates have 1 to 4 votes depending on size of association which favors small associations**
- **The IAA works through its Committees and Sections, supported by a Secretariat in Ottawa, Canada through an efficient IT network**
- **Council meets at least once a year in the fourth quarter to receive financial statement, adopt budget and approve fees.**



# Internal administration

## ➤ Audit Committee:

- review and recommend to Council the approval of the annual financial statements and the appointment of the auditor.

## ➤ Nominations Committee :

- recommend to the Council
  - the creation or dissolution of Committees, Task Forces, Working groups,
  - their Terms of Reference
  - names of suitable candidates to assume the duties of President and other key positions in the IAA.



# Membership Committees

## ➤ Accreditation:

- examine applications for Full Membership and review continued compliance

## ➤ Advice and Assistance:

- provide advice and assistance
  - when requested by member associations, associations seeking to become members
  - to those wishing to establish new associations.

*-New Task Force: “Actuaries without frontiers”*





# Membership status

- **47 Full plus 25 Associate members associations, comprising over 30,000 fully qualified actuaries in 50 countries on all continents**
- **3 Institutional Members**  
**IASB, IAIS, ISSA**
- **Individuals can exceptionally become members of IAA directly when they cannot do so through a national association.**
- **New membership categories to be discussed in May 2003**



# **International Promotion and Education Fund (IPEF)**

- **Established by the Council in 1992 to contribute to the further development of the profession worldwide through Colloquia, Summer schools, Scholarships and Bursaries**
- **Catalyze initiatives, activities and efforts for which a small amounts of funding can achieve maximum direct results through training either in technical subjects or as leaders in the organization and activities of actuarial professional societies,**
  - **• 2nd International Professional Meeting of Leaders of the Actuarial Profession in Anglophone Africa: Lagos, Nigeria - February 20-22, 2003**
  - **• 1st International Professional Meeting of Leaders of the Actuarial Profession in Francophone Africa: Casablanca, Morocco - March 31-April 2, 2003**
  - **• 3rd International Professional Meeting of Leaders of the Actuarial Profession and Actuarial Educators in Asia-Pacific in conjunction with the East Asian Actuarial Conference: Manila, Philippines – October 10-12, 2003**



# Full membership main conditions

- **Code of professional conduct**
  - **Minimum is Code of “Groupe Consultatif”, similar to North American code**
- **Formal discipline process**
- **Minimum educational guidelines for new fully qualified members matriculating after 2005**
- **Formal process for adoption of Standards of Practice**
- **Pay annual fee per Fully Qualified Members**  
( *CAD\$7.00 in 2003* )



## Committees of the IAA

# Professionalism

- identify issues relating to the professionalism of actuaries worldwide,
- recommend appropriate approaches , including standards of practice and qualifications in coordination with the expectations of other worldwide professional forums with respect to cross-border practice, communication of disciplinary actions,
- guidance to the associations in the interpretation and implementation of standards
- to monitor experience with the IAA standards.
- **Papers on “Mutual Recognition and other Cross-Border Issues“ and “Mutual Discipline Agreement” posted on web site**



# Two definitions of “Actuary”?

- *“The professional who manages the financial consequences of the uncertain.”*
- Actuaries are respected professionals whose innovative approach to making business successful is matched by a responsibility to the public interest. **Actuaries identify solutions to financial problems.** They manage assets and liabilities by analyzing past events, assessing the present risks involved and modeling what could happen in the future.



## **Committees of the IAA**

# **Education**

- **Recommends education guidelines and a syllabus for an internationally recognized actuarial qualification**
- **Preparing for the enforcement of education guidelines in 2005+**
  - **Self-assessment questionnaire redesigned**
  - **Criteria to assess conformity to Guidelines**
- **Developing survey of CPD requirements**
- **Promoting the convergence of examination standards**
  - **Need to recognize differences in markets**



# Syllabus Summary

- **Financial Mathematics**
- **Probability and Mathematical Statistics**
- **Economics**
- **Accounting**
- **Modeling**
- **Statistical Methods**
- **Actuarial mathematics**
- **Investment and Asset Management**
- **Principles of Actuarial Management**
- **Professionalism**



# Global Driving Forces

- **Crises: 1994-95 Mexico, 1997-98 East Asia, 1998-99 Russia then South America**
- **Moral hazard due to perception of bail-out of government guaranteed foreign debts exacerbated by weak financial infrastructure**
- **Meltzer Commission on International Financial Institutions, Nov.'98: *too much IMF focus on expensive rescue operations, not enough on improving financial structures in developing countries***
- **New focus on eliminating risk to international financial stability by promoting safer and sounder banking and financial systems**





# Bank for International Settlements

- **Basel Committee on Financial Supervision proposes international standards and « best practices » for banks**
- **1999: new focus on financial stability by G-7 Finance Ministers and Central Bank Governors:**
  - **creation of the Financial Stability Forum**
  - **International Accounting Standards Board (IASB) and important rule-setting bodies in insurance (IAIS), banking (Basel Committee) and securities (IOSCO) are members**
- **2001: Minimum capital requirements of 1988 Capital Accord replaced in January by Basle 2 Accord**
- **Risk Based capital requirements for banks migrated to Insurance Sector**



# Convergence of financial institutions

- **Emergence of Bancassurance blurring traditional fields**
- **Large scale demutualizations of insurance companies create complex financial groups that can arbitrage regulatory differences**
- **Both banking and insurance are global industries and need protection against financial crimes or money laundering**
- **Ageing increases flow of retirement savings through banks, pension insurance and direct market claims**



# New insurance regulatory environment

- **IAIS has set up several Working Groups to develop supervisory standards on**
  - **(1) solvency and capital requirements,**
  - **(2) reinsurers,**
  - **(3) electronic commerce,**
  - **(4) market risk,**
  - **(5) insurance liabilities,**
  - **(6) technical and investment performance disclosure,**
  - **(7) securitisation.**



# Convergence of Global Accounting Standards

- **Use of new IASB standards mandated by EC from 2005 for listed financial institutions; may apply also to all financial institutions in EU. Australia, Russia and other countries likely to follow IAS standards.**
- **October 29, 2002: The US Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) issue a memorandum of understanding, marking a significant step toward formalizing their commitment to the short term convergence of U.S. and international accounting standards.**
- **Recent events in the US are likely to accelerate convergence**



# International Financial Reporting Standards (IFRS)

- **Convergence, level playing field, more transparency and better risk measurement call for:**
  - **The revision of IAS 32 *Disclosure and Presentation* and 39 *Recognition and Measurement* for financial instruments other than insurance contracts**
  - **The drafting of a Standard for Insurance contracts which will apply to products independently of corporate structure and embody “fair value” treatment**
- **IAS 19 *Employers’ Accounting for Pensions* and FAS 106 *Employers’ Accounting for Postretirement Benefits Other Than Pensions***



# **New international accounting standards for Insurance**

- **The IASB (Ex- IASC) is leading a global effort to transform financial reporting requirements for insurance contracts in order to fill a gap in the International Financial Reporting Standards (IFRS)**
- **Objective is to achieve a single set of accounting standards that provide participants in world's capital markets with useful, understandable and comparable information across financial institutions**
- **This is part of the commitments of IASB as member of the Financial Stability Forum**



# International challenges for the global actuarial profession

- **The major transformations to the accounting and regulatory environment can dramatically change the scope of the profession, the recognition and the role of the actuaries in the financial services industry**
- **The changes call for an organized response by the actuarial profession to ensure a constructive participation at the level of major international institutions such as IMF, WB, IAIS, IASC, IFAC, IOSCO**
- **Three IAA Committees have been particular involved in responding to the challenges:**
  - **IASB Insurance Accounting Standards**
  - **Insurance Regulations**
  - **Pensions and Employee Benefits**



## **Committees of the IAA**

# **IASB Insurance Accounting Standards**

- **Deal with matters arising out of the expected IASB Insurance Accounting Standards.**
- **New IASB standards embody new principles of significant importance for the actuarial profession and for the insurance industry: definition of insurance risk, fair value, risks adjustments, etc....**
- **The IAA has provided education and a wide variety of assistance to IASB on multiple technical issues.**
- **The IAA intends to develop actuarial standards and guidance for compliance through its Sub-committee on Actuarial Standards for Insurance Accounting**





## **Committees of the IAA**

# **Pensions and Employee Benefits**

- **Coordinate the IAA's response to the IASB Employee Benefits Accounting standard and deal with matters arising out of the promulgation of that standard. Coordinate as needed with the Committee on Social Security. Provide support to the proposed IAA Pensions Section if established.**
- **Address any professional issues of international relevance for actuaries working in the field of employer-provided pensions and employee benefits**
- **To establish links into other worldwide pension organizations as may be appropriate (such as the Organization for Economic Co-operations and Development (OECD), the World Bank, the International Network of Pensions Regulators and Supervisors (INPRSS))**



# Committees of the IAA

## Insurance Regulation

- liaise with the regulators and other interested bodies at the international level on issues relating to the regulation and supervision of insurance companies
- assist in the development of international guidelines or standards.
- **Drafting of an IAA Paper on “*The Role of the Actuary in Prudential Supervision*”**
- **Development of risk based capital solvency standards**



# IAA Solvency Working Party

- **Born out of the co-operation between IAA Insurance Regulation Committee & the International Association of Insurance Supervisors (IAIS) on solvency issues**
- **IAA Solvency Working Party report delivered in early 2002 - key elements:**
  - **Classification of insurer risks**
  - **Risk assessment process overview**



# Solvency Working Party Report

## Classification of insurer risks

- Underwriting
- Credit
- Market
- Operational
- Event
- Liquidity

## Risk assessment process overview

- Modeling tools
- Key components of risk
- Time horizon
- Risk management
- Combining risks
- Distributions
  - ⇒ assessment
  - ⇒ risk measures
- Implications for solvency assessment



# **IAA Risk-Based Capital Solvency Structure Working Party**

- **formed spring of 2002, final report due in Sydney in May 2003**
- **describe principles & methods to quantify total funds needed for solvency**
- **foundation for global risk-based solvency capital system for consideration by IAIS**
- **identify best ways to measure the exposure to loss from risk & any risk dependencies**
- **focus on practical risk measures & internal models**

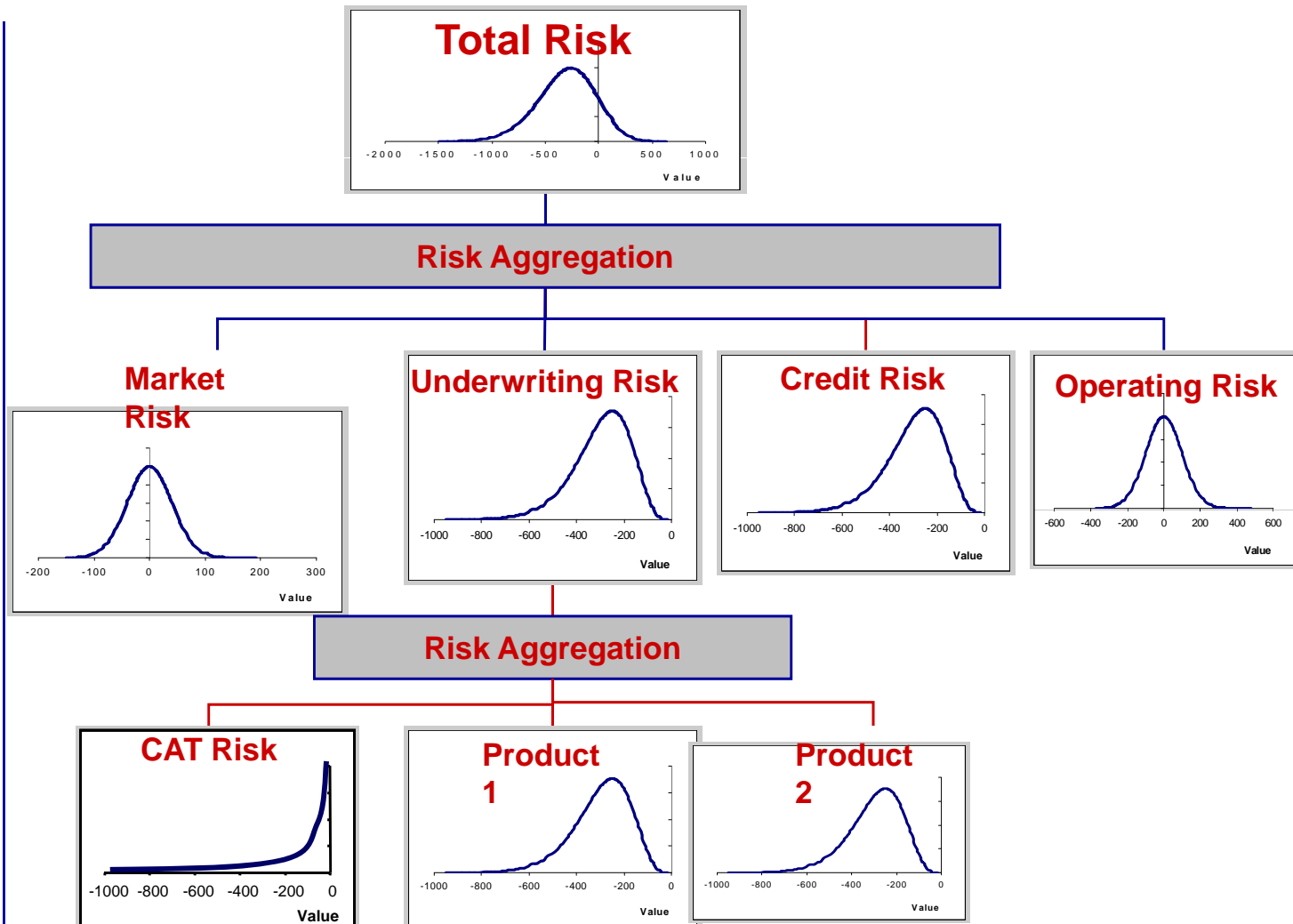


# Preferred Structure for Solvency Assessment

Total Company Risk

Risk Type

Products





## **Committees of the IAA**

# **Financial Risks**

- **Develop actuarial positions and promote actuarial skills with respect to financial risks and investments**
- **Immediate objectives**
  - **seminar on capital and risks in banking and insurance to be held May 14, 2003 in Sydney.**
  - **a survey to determine what sort of work is being done on the valuation of financial instruments with the ultimate objective of creating a group of highly recognized actuarial work in this field.**



## **Committees of the IAA**

# **Social Security**

- **liaise and work with the International Social Security Association (ISSA) in the development and promulgation of a standard of practice for actuaries making formal reports on social security systems**
- **responsible for raising the profile of the actuarial role in relation to social security organizations and to support actuaries working in this field.**

**New Guidelines of Actuarial Practice for Social Security Programs adopted in October 2002**





## **Committees of the IAA**

# **Services to Individual Members**

- **fulfill the various professional needs of the individual members within the IAA**
- **facilitate communication among interested individual members**
- **coordinate International Congresses**
  - **Paris 2006; venues for 2010 and 2014 to be considered in May 2003**
- **Oversees the creation of Sections:**
  - **Health Section proposed in May 2003**
  - **Pension Section and Life Section in progress**



# Sections

- **1957 ASTIN: Actuarial Studies in Non-Life**
- **1988 AFIR: Actuarial Approach to Financial Risks**
- **1999 IACA: International Association of Consulting Actuaries, created in 1968 becomes an IAA Section**
- **2003 IAAHS : Health Section to be proposed in May**
- **Scope:**
  - **Conference/Colloquia**
  - **Educational material**
  - **Research and development of scientific core**
  - **Publications: ASTIN Bulletin**



# Outreach of the IAA

- **Officially bilingual: English and French**
- **Working languages include Spanish and German**
- **Multi-lingual website: *www.actuaries.org***
- **Bulletins and News Letters**
- **Geographic rotation of meetings**
- **Customized search and indexing facility to access sites more relevant to actuaries:  
**virtual global actuarial library****
- **Customized automatic translation:**



# Automatic Translation

English ↕ French	English ↕ Spanish	English ↕ German
French ↕ German	French ↕ English	French ↕ Spanish
Japanese ↕ English	Russian ↕ English	Chinese ↕ English

**Volunteers needed to help build customized actuarial dictionaries for each language pair**



## Committees of the IAA

# Supranational Relations

- actively promote a higher profile for the actuarial profession on the international scene and its active participation in all areas where actuarial expertise can be drawn upon;
- seek the recognition of a proper status for the IAA by the relevant supranational organizations and focus on establishing and maintaining contacts with these supranational organizations
  - **Reciprocal links with IASB, IAIS, ISSA**
- encourage the publication in supranational media of articles by actuaries and generally take those actions deemed beneficial to the actuarial profession
- make representations and arrange meetings with the leaders of the supranational organizations.
  - **Presentations to the World Bank, IMF and WHO to promote the actuarial profession**



# Global access to quality services

- **Global Financial Institutions require global access to professional services meeting international quality standards**
  - **Upgrading and creation of associations in “*less actuarially developed areas*” (*LADA*) to achieve recognition and presence in all countries**
- **If the quality of actuarial services is too variable, market demand and regulatory bias will shift to other professionals**
  - **Helping all actuaries to behave professionally in a competitive and more demanding world**



# Getting out of the box!

- **Support the globalization of the profession by**
  - **research beyond the products, which are the means, not the objective**
  - **addressing issues important for the society, not only for the industry**
  - **tools and methodologies keeping pace with a changing environment and new life styles**
- **Become more universal by adapting to different**
  - **cultures and educational patterns**
  - **legal and political systems**
  - **socio-economic needs and technological environment**
  - **development pattern/wealth**
- **Better integration with other disciplines, the academic community, Think tanks and other research institutions**



# IAA Statutes, Article 3 Aims

*Created to serve as a bond between the actuaries and the associations of actuaries throughout the world, the IAA is the international professional, educational and research organisation of actuarial associations and of actuaries. Its objectives are to:*

- 1. Develop the role and enhance the reputation and recognition of the actuarial profession and individual actuaries throughout the world;*
- 2. Promote high standards of professionalism among actuarial associations and among actuaries throughout the world to ensure that the public interest is served;*
- 3. Advance the body of knowledge of actuarial science and its applications;*
- 4. Further the personal professional development of actuaries throughout the world;*
- 5. Promote mutual esteem and respect amongst actuaries;*
- 6. Provide a forum for discussion among actuaries and actuarial associations throughout the world; and*
- 7. Represent Member Associations in discussions with international bodies.*<sup>40</sup>





# *W. James MacGinnitie*

## *IAA President – 2003*

"Man made catastrophes now appear to be more financially devastating to the financial system than natural catastrophes which heretofore had been our primary concern.

Since 1998, the IAA has made great strides in areas such as regulation of insurance companies, accounting and social security standards.

Much remains to be done because of the new challenges and also because of the continuing need to evolve our education system in this rapidly changing world"