

THE IAA – A POSSIBLE MODEL FOR CHANGE

Introduction

At the IAA Council discussion in Rome on the Strategic plan for the IAA, and subsequently in feedback from IAA Executive Committee members, there were a number of delegates who suggested that the time had come for a review of the governance of the IAA .

There are indeed a number of key imperatives that drive the need to consider change. Most of these imperatives are global in nature and hence require effective global responses.

The imperatives include the widespread impact of the Morris review, the need to respond with increasing urgency to the rapid pace of change in international accounting standards and the increasing globalisation of insurance regulation, the challenge of international risk management, the looming pensions crisis on both sides of the Atlantic and the need to respond much more effectively to the exploding demand for actuarial skills.

And whilst each of these imperatives contains a threat they also provide an immense opportunity for the profession to mobilise its international resources and become a truly global profession of major importance. There is a strategic role for the actuarial profession in a world where countries ranging from those with immense populations such as China and India through to the smallest developing nations seek to develop the effective financial infrastructures that are recognised as core components of major economic markets.

At the same time as we face these emerging challenges we have an international actuarial infrastructure that is largely designed for a more stable, less dynamic and less global world.

There are a range of forces encouraging a more global model including:

- international accounting (and actuarial standards)
- the need for global risk and opportunity assessment for the profession
- an emerging global regulatory (IAIS) model
- the need for harmonisation of education – at least up to the Associate level
- increasing mobility of actuaries

The IAA President-elect, Jean Louis Masse, asked the Australian representatives to the IAA to put together some suggestions or concepts for a possible model for change as a basis for discussion. This paper provides some early thoughts, to provide a starting point. Significant further work is required to elaborate on the options and suggestions outlined, and develop a plan for moving forward. We have briefly addressed:

- *The current environment*

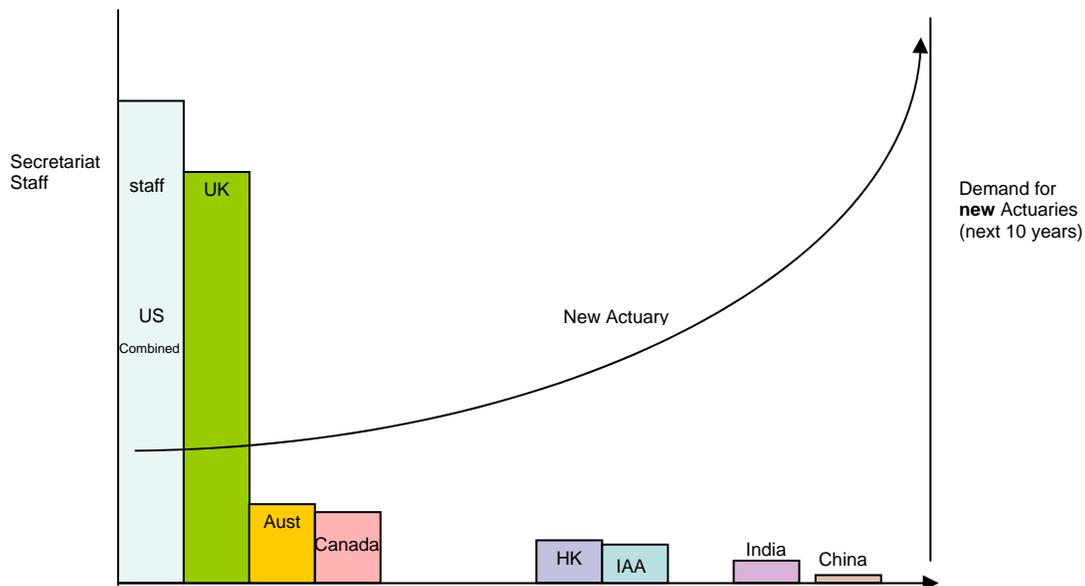
- *The weaknesses of the current structure*
- *A possible model for change*
- *A road map for change*
- *Some homework*
- *Conclusion*

The proposals deliberately suggest significant change, to promote a vigorous, full and frank discussion of the issues involved with a view to moving the IAA forward in line with the pace of international change that is occurring.

The Current Environment – some observations and assumptions

There are major global risks facing the profession which have already been detailed in the **Introduction**. The current world actuarial population of 35,000 is too small to compete and respond to global challenges in its currently fragmented state. It must find some way of marshalling its resources on a more global basis if it is to respond effectively.

While various actuarial associations have permanent support resources that could assist the IAA and its members in providing global responses, there are significant imbalances in the level of these resources and the degree of international coordination between them is more limited than it could be. This imbalance of resources, matched against the emerging global demand for actuaries, appears figuratively as follows:



Two organisations have staff of more than 100 – the Institute of Actuaries (UK) and the Society of Actuaries (US). The next group - Institute of Actuaries of Australia, Canadian Institute of Actuaries, Casualty Actuarial Society, American Academy of Actuaries each have staff of between 15 and 40 and the remainder including the International Actuarial

Associations have permanent staff of less than five and many have no permanent secretariat staff at all.

It is interesting to note that the International Actuarial Association has a permanent staff of roughly the same size as the Joint Hong Kong Office.

There isn't a single, internationally agreed basis for actuarial qualification, which places the profession at a disadvantage relative to others such as CFAs that have been able to implement and achieve international recognition of a single qualification. Significant steps have been taken to develop the IAA core syllabus below fellowship level, and a number of bi-lateral recognition arrangements for actuarial qualifications at fellowship level are in place, but there is more that needs to be done to enable the actuarial qualification to be truly global.

There are three major education systems – all internal i.e. Professional education [eg UK, US, Japan] all external i.e. universities [eg Europe, Mexico] and mixed i.e. universities and professional education [eg Australia]. While there is a considerable degree of similarity in the syllabus and content, there is significant duplication of effort in education delivery.

The current structure of the International Actuarial Association does not effectively support the development of new frontiers whether they be geographical [India, China, or smaller developing countries] or intellectual [risk management]. This is because of the lack of adequate and effectively coordinated resources and also because the current processes for progressing issues [six monthly meetings around the globe or via extensive email exchanges] are too cumbersome and too expensive for many to contribute.

The weaknesses of the current structure in a global world

The IAA itself is massively under-resourced both in people and in funds given its aims and objectives.

More importantly though, it isn't effectively leveraging the resources that are available to it through the national associations that are its members. There is duplication in and lack of coordination of the efforts of national associations both through their members and secretariats in dealing with global issues and this creates time consuming inefficiencies.

While there is a massive contribution by some IAA members who devote much of their working time to major issues on a voluntary basis, the current committee system is not effective in getting maximum benefit and efficiency from those efforts. To have potentially very large committees spread across the globe with only the opportunity to meet face-to-face every six months makes it very difficult to maintain momentum.

The process of meeting every six months in international locations also makes it very difficult for the smaller developing nations to participate so that the voice of the IAA, though nominally representative, can be, or be seen to be, unbalanced

Further, the decision making and approval processes within the IAA are lengthy, with many steps and many people involved. Further, there is ambiguity between the roles and responsibilities of Council, the Executive Committee and the President/President-elect of the IAA, and between the function of the Council meeting and the Presidents Forum. Best practice organisational structures have clear processes and structures in place with clearly defined responsibilities for decision making, but the layers and number of people involved in decision-making is limited.

Because of the subsidiarity principle the IAA often lacks the authority to speak or act effectively for the profession at the global level. While it is clearly important that there are processes in place to ensure appropriate consultation and representation is maintained, it is quite conceivable that the national organisations could delegate authority upwards to the international body. The best comparison is with federal government systems [US, Canada, Germany Australia] where the individual states have delegated certain powers up to the federal government.

A Possible Model for Change

The objective is to achieve a model of governance which will encourage a strong globally focussed profession and which does so by effectively pooling resources and optimally utilising them to achieve its objectives. The model must also ensure that there are appropriate governance arrangements in place to ensure that the ideals of international representation are maintained and that there is transparency of decision making and processes. Finally, it is important to enable effective and efficient decision making and coordination of activity through streamlining the structure and processes.

The Governing Body

Three possible models were considered

1. A large fully representative body as now (e.g. the current IAA Council, with each member having a delegate)
2. A small globally elected body
3. A mid sized body reflecting regional groupings

The third option has the advantages of ensuring regional representation while still giving a small, flexible decision-making group and is our clear preference.

Without trying to design such a body in detail it is easy to conceive of, say, a fifteen member body with three representatives from each of five regions [say Europe, Asia/Pacific, North America, Central and South America, Africa] and with guidelines and

voting arrangements such that the representatives should represent the diversity of the region.

Two key roles for *the Governing Body* would be governance, and strategic planning. The early imperative for the strategic planning would be an opportunity and risk assessment for the global profession.

The Standing Committees

There would only be four *Standing Committees* and membership would be appointed by the *Governing Body*. The *Standing Committees* would be

- Governance
- Professional Standards
- Education
- Practice Development and Research

Working Groups

All other IAA activities would be project-based, with clear sunset provisions, and undertaken by Working Groups that report through to one of the four standing committees (or in some cases perhaps directly to the Governing Body). Some members of the Working Groups would be appointed (including the Chairperson) but broad representation and participation would continue to be encouraged.

Professional Resourcing

The organisation would be led by a global CEO accountable to the *Governing Body*.

To maximise the effective use of the profession's limited resources, and to reduce duplication, aspects of the operational functions of the secretariat would be outsourced to appropriate national organisations either on an "appointed" basis or on a "bid for" basis.

There would need to be a sound funding basis for a stronger global body involving an increase in subscriptions from member bodies.

Education

There should be an objective of achieving a common educative framework – at least up to the Associate level. Fellows would then be certified when they had completed this stage plus the equivalent of Control Cycle and Commercial Actuarial Practice and Professionalism (using the Australian vernacular). Fellows could then specialise at higher levels (similar to medical general practitioners and specialists) which may initially still be country or region based to reflect the statutory/legislative requirements applying in each country/region.



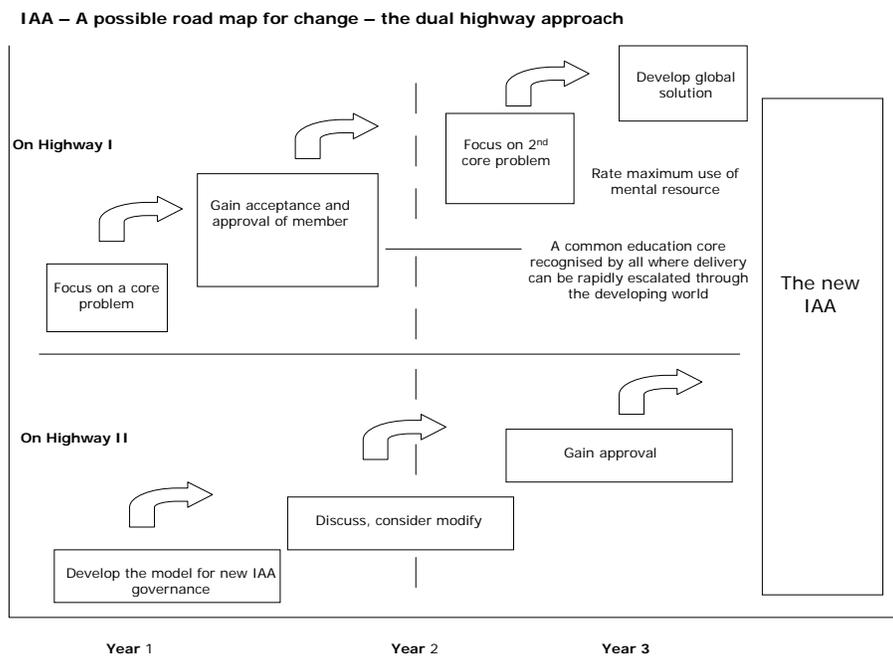
Meetings

Rather than cumbersome six monthly meetings located around the globe most meetings would be conducted maximising the use of technology so that they could be held as and when needed to expeditiously progress issues. Rather the *Governing Body* would have more regular meetings associated with regional activities but also accommodating the need for members to participate from a distance.

One annual meeting (perhaps linked to another event/conference) may still be desirable to bring all of the Committees and Chairs together, allow wider participation and discussion across the committees and working groups and facilitate transparency of IAA processes and decision-making.

Road map for change

A possible road map for change appears as follows:



This timeline is intended to address implementation, which needs to include resolving the structure and the roles and responsibilities of the proposed model; developing the supporting rules/processes (eg regions/voting etc); addressing key issues eg subsidiarity; and progressing the concept of outsourced secretariat functions.

Strategic direction

The strategic direction for a globally led profession should be based on a set of key strategic issues which are derived from a global risk assessment and a global opportunity assessment. This could use a framework as appears below with a few issues identified to exemplify the analysis (i.e. this is by no means a complete analysis).

Global Risk & Opportunity

RISK ASSESSMENT

IMPORTANT/ IMPACT	H		<ul style="list-style-type: none"> • Developing Country Support 	<ul style="list-style-type: none"> • Resistance to change/parochial • Unfunded pensions • Brand – too technical/narrow/insurance related etc • China/support India
	M		<ul style="list-style-type: none"> • Subsumed by accountants 	
	L			
		L	M	H
		URGENCY		

OPPORTUNITY ASSESSMENT

IMPORTANT/ IMPACT	H	<ul style="list-style-type: none">• Self-regulation	<ul style="list-style-type: none">• China/India• Brand – Broaden Risk Positioning	
	M	<ul style="list-style-type: none">• Subsumed by accountants		
	L			
		L	M	H

URGENCY

Conclusion

The profession globally is in the midst of an unprecedented environment of change. These changes offer substantial threats but also substantial opportunities if the profession is prepared to grasp them and tackle them as global issues.

Individual actuaries are generally international in their outlook but the actuarial associations have, in the past, been locally focussed because the issues they faced whether legislative or professional or educational.

The global imperatives are now arguably more important than the national interest focus. We must gear ourselves for the most effective global response.



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