

THE GOVERNANCE OF THE IAA – A DISCUSSION PAPER

MARCH 2007

1. Introduction

The International Actuarial Association (IAA) was formed in 1895 as an association of individual actuaries. For more than 100 years, its primary purpose was to organize International Congresses of Actuaries every four years or so. It had a Council of individual actuaries which met annually in Brussels to select host countries for the Congresses and facilitate their occurrence.

At the Congress in Montreal in 1992, a group gathered under the leadership of Paul McCrossan of Canada to develop plans for a global association of actuarial associations. At the Congress in Brussels in 1995, the International Forum of Actuarial Associations (IFAA) Section of the IAA was formed. In 1998 at the Congress in Birmingham, England, the IAA was reformed as an association of associations and the IFAA Section was dissolved.

This brief history is offered to show the growth of the global profession and that it took six years for a seed of an idea for a global association of actuarial associations to become a reality. There was careful drafting of Statutes and Internal Regulations and, to be frank, some mistrust of some associations during this formative period.

In virtually no time, it became clear that there was a need for a single actuarial voice to respond to other global organizations, such as what is now the International Accounting Standards Board, the International Association of Insurance Supervisors, and so on. Representatives of the various actuarial associations worked well together, the fears of mistrust reduced immensely, and respect for the IAA grew as well. The fear that individual actuaries would be neglected proved unfounded as the number of Sections (with individual actuaries as members) grew from two to seven with more under development.

Other important developments have occurred since 1995 including:

- the establishment of minimum standards by the IAA for full membership of member associations in the areas of education, qualification standards, and discipline programs;
- the globalization of the profession with many new, young associations having been formed making the IAA less homogenous; and
- the e-revolution facilitating communications which has transformed the nature and content of areas of practice and has pulled the actuarial profession clearly into the public arena.

Now, nearly nine years after the IAA was reformed as an association of associations, the time is ripe for a review of the Statutes and Internal Regulations to see how they can either be better utilized or revised to have the governance of the IAA become more responsive and transparent.

2. The Current Structure of the IAA

Summarized below are the sections of the IAA Statutes and Internal Regulations which address the main governance bodies of the IAA. There is, of course, more in the Statutes and Internal Regulations, but these Articles discuss the key areas of governance that have been recently discussed within the IAA.

Council - Article 9 states in part that *“The Council constitutes the governing body.”* It goes on to state that *“All powers necessary for achieving the IAA’s aims are vested in Council, which has the sole responsibility to...”* do 18 specified things. To date, Council has not delegated any of its responsibilities, so all decisions come to Council.

Officers - Article 14 states in part that *“The Officers shall be the President, President-Elect, Immediate Past President, and Secretary General. They shall be ex-officio members of Council and shall not represent a Member Association. They must be fully qualified actuaries of Associations which are Full Members.”* The President and Secretary General carry out the operational responsibility for the governance of the IAA activities and are obliged to report to the Council.

Executive Committee - Article 16 states in part that *“The Council shall elect an Executive Committee, which shall co-ordinate activities and operations, and propose strategies, budgets, membership fees and Council meeting venues.”* In addition the Executive Committee shall make proposals to the Council about the strategic direction and the scope of activities of the IAA.

In practice, besides governance matters, the Executive Committee discusses issues brought up by the committee chairs, but it has not actively coordinated the work of the committees. With the increase in the number of Committees and Sections, perhaps the Executive Committee membership is larger than originally expected. Members of the Executive Committee are somewhat frustrated today at not being able to act as a body.

Nominations Committee - Article 18 states in part *“It shall have the responsibility to recommend to Council nominees for election as Officers and members of the Executive Committee, and nominees for appointment as members of the Nominations Committee, Delegates of Council to each Section Committee, and Chairpersons and Vice-Chairpersons of Committees and other positions as Council determines.”* In addition, the Nominations Committee proposes the Terms of Reference (TOR’s) of committees, task forces and working groups for approval by the Council.

In all of its recommendations, the Nominations Committee has sought *“to achieve geographical, linguistic and cultural balance, as well as an appropriate range of skills and practice areas”* in all its recommendations (TOR’s for Nominations – Section 3.3.1 of the Internal Regulations). Note that the TOR’s for Nominations allow putting forward more than one candidate for a vote by the Council.

The necessary function of seeking candidates for a growing number of positions has interfered with another important responsibility – the updating of the mandates of the committees to ensure the relevance of the structure.

There are two other groups not covered in the Statutes and Internal Regulations which are important aspects of the current governance process – the Task Force on Strategic Planning and the President’s Forum.

Task Force on Strategic Planning (TFSP) – The TFSP reports to the Executive Committee. It shall advance the strategic planning process and draft and update the Strategic Plan for the consideration of the Executive Committee.

The **President’s Forum** meets in connection with the biannual meetings of the IAA Council and Committees. The Forum consists of the Presidents of the IAA Full Member associations, but has no official role within the IAA. The aim of its meeting is to provide a forum for discussion of issues of mutual interest.

3. Overview of the Survey

The TFSP has been asked to prepare this paper for discussion at the Council meeting April 18, 2007, in Mexico City. To assist it in developing the paper, the TFSP distributed a survey on January 31 to all 430 people who are on the IAA Council or Committees, or serve as Presidents or Correspondents of Member Associations. Responses were received from 118 people (a 27% response rate). This response rate is good for a survey of this type. The respondents represent a fairly broad cross-section of the IAA. We sincerely thank all those who took the time to provide us their input.

A complete summary of the responses to this survey has been posted to the IAA website (www.actuaries.org) in the Members Only section, and is also available through this [link](#). A commentary on some of the responses follows.

The first questions (1-6) dealt with the **most important issues facing the international actuarial profession**. These responses will be very helpful to the TFSP as it works on developing a strategic plan in the future. It is interesting to note that regardless of the issue, 90 to 96% of the respondents felt their issues were important (a rank of 4 or 5) for the IAA to play a role in addressing. At the same time, there was a slight feeling that the IAA had not succeeded in addressing the issue. The role of the IAA’s structure in addressing the issue was slightly towards the “well suited” side. The importance of the IAA to the respondent’s member association on the issues identified was high (60 to 70% of the respondents chose a rank of 4 or 5). Clearly there is work to be done by the IAA in better addressing the issues facing the international actuarial profession. However, the TFSP will not attempt to deal with the strategic plan at this time, since governance issues seem to be more critical now.

Question 8 asked the respondents to rate the various aspects of the current IAA **organizational structure** with respect to their effectiveness. By far the highest ranking went to the Secretariat with 72% of the respondents ranking it as a 4 or 5 and only 3% ranking it a 2 (none ranked it 1). Committees had a high ranking of 4’s and 5’s (67%), but also had 19% ranking 2’s (none ranked them 1). On the other hand, Council had the lowest percentage of rankings of 4’s and 5’s (32%) and the highest percentage of rankings of 1’s and 2’s (33%). Not far behind was the ranking of Nominations, with 37% ranking 4’s and 5’s and 26% ranking 1’s and 2’s. We need to improve the effectiveness of Council and the transparency of Nominations.

Question 11 asked “*Should Council empower a newly constituted **Executive Committee** with some operational decision-making authority so that the IAA Council can focus more on policy issues?*” A rank of 4 or 5, signifying this being a good idea, was assigned by 62% of the respondents, with only 14% saying it was a bad idea.

Question 20 asked “*Should the IAA have three or more **Vice Presidents** each with oversight over several IAA committees?*” A rank of 4 or 5, signifying this being a good idea, was assigned by 45% of the respondents, with only 25% saying it was a bad idea.

Among those who responded, there was strong support (67 to 71%) for having **competitive elections** (questions 21-23).

Some ideas on how to deal with these results will follow in subsequent paragraphs. From the above, there appears to be a clear consensus of where we need to concentrate our work to address ways to improve governance and transparency.

4. Strategic Issues

A summary of the top two greatest challenges to the international actuarial profession identified in the survey responses (Questions 1 and 3) has been made (to the best of one’s ability). The most frequently mentioned challenges were (in order):

- a. Education
- b. Quality (standards and guidelines on financial reporting)
- c. Scope (broadening the application of our skill set)
- d. Branding (image, reputation and recognition of the profession)
- e. Services to membership
- f. Recognition (role of the actuary)
- g. Relationships (with governments and institutions)

In addition, the responses to Question 24 of the survey indicate that, for those who responded, three of our current objectives have strong support (1) promote high standards of professionalism to ensure that the public interest is served, 2) develop role and enhance reputation and recognition of the profession, and 3) represent the member associations in discussions with international bodies). The other current objectives rank substantially lower, with “promoting mutual esteem and respect amongst actuaries” being in a class by itself with the least support. Perhaps we should sharpen our focus on just three rather than seven objectives?

As stated earlier, the TFSP will be dealing with developing a strategic plan later and will definitely incorporate this information in that work.

5. Decision Making Roles (for discussion)

The concerns and criticisms expressed about the current IAA governance include:

- a. Council is dealing mainly with governance issues instead of strategic issues
- b. Since Council has not delegated any of its decision-making power the IAA reacts too slowly to internal and external needs
- c. More transparency is needed
- d. The IAA needs to be more proactive
- e. A tighter link between the structure and the strategy of the IAA is needed

In the following paragraphs we present some ideas for discussion at Council on April 18.

Council - In general, we believe that it is important to distinguish between a strategy making body and an operating, or implementation, group. We also believe that the strategy making body should be the senior body and one on which all national associations are represented. In the IAA structure, this role belongs to the IAA Council.

President's Forum - The Presidents' Forum provides a very useful arena for discussion and for stimulating consideration of issues. Since its membership lacks continuity (many presidents only hold office for one year) it is best suited for discussion and the raising of issues rather than as a decision-making body. It should be noted that association Presidents are already in a very influential position vis-à-vis the IAA in that, in most associations, they appoint the delegates to Council and to the various IAA committees and task forces.

Competitive Elections - We see strong support from those who responded to the survey for competitive elections (more than one candidate per open position) for some positions. However, we have concerns listed below:

- a. We may not get the best suited candidates to agree to run in a competitive election. Serving as an Officer of the IAA is time-consuming and requires the strong support of one's employer. Some candidates may prefer to have that discussion with their employer only if the possibility of being elected were a strong probability.
- b. The carefully constructed balance of elected persons representing different regions, cultural backgrounds and experience could break down. Non-native English speaking candidates may be disadvantaged in a debate with people more fluent in English. Candidates from smaller associations could be disadvantaged.
- c. Good candidates willing to run for office need time to familiarize themselves with the operations of the IAA and they often need years to free themselves of their senior positions at their employer's office in order to make room for the increasingly heavy travel schedule of the IAA President. Currently there are sometimes problems in finding just one good and willing candidate to run for office. Finding two or more would prove even more difficult.

That said, perhaps an experiment of holding a competitive election for some members of the revamped EC or the Nominations Committee would be a first step. However, we do not favour the President-Elect being elected via a competitive election.

Something to be considered is having groups from our three geographic regions getting together to select their candidate for a particular position representing their geographic region.

Executive Committee – An operating group is needed to monitor the implementation of the agreed strategy within specified terms of reference. To be efficient, this group should be small in number. We suggest that this task could be carried out by creating a real Executive Committee ("EC") which is a decision-making body staffed with people who bring a diverse set of views to that decision-making process. The EC decisions would be limited to operational decisions, while the Council decisions would be strategic.

We set out below one possible model for a revamped EC, while stressing that this is put forward for discussion purposes, to assist Council in its deliberations. Although it is a single proposal, it does not imply that this is the only model that we could support.

We feel that the ideal size for an EC would be 10-12 members. One possibility for the membership of the EC would include the Officers (Immediate Past President, President (Chair of the EC), President-Elect, and Secretary General) plus seven other members elected by Council. The membership of the EC would be selected to achieve geographical, linguistic and cultural balance, as well as an appropriate range of skills and practice areas. The term of the seven elected members other than the Officers could be staggered three year terms.

One option is that three EC members would be designated Vice Presidents (described below), each with oversight and coordination responsibilities for a group of Committees and Sections. We feel that if there were more than three VP's, there is a risk they would infringe on the duties of the Chairpersons they were overseeing. Four other EC members (Directors?) would be at-large members with generic duties as agreed within the EC (for example, looking after image, reputation, and recognition or broadening the application of our skill set, etc.). These four at-large members of the EC would represent each of the three geographic areas we currently have, plus one at-large.

Another option is that the EC would decide on the allocation of duties and responsibilities amongst its members without creating new positions of Vice Presidents.

The primary charge of the revamped EC would be to carry out the operational aspects of the IAA, to prepare strategy proposals and material for discussions at Council meetings, and to monitor the implementation of the strategic plan. The specific duties of the EC (many delegated from Council) could include some or all or a version of the following:

1. Provide oversight and coordination for the Committees and Sections and create Task Forces as deemed necessary.
2. Recommend changes to the governance or the structure of the IAA, its Sections, Committees, Task Forces, Work Groups or other entities. To propose the initial terms of reference for each such entity for approval by Council.
3. Review periodically the structure, and every three years the terms of reference, of each of the entities as to their appropriateness in relation to tasks foreseen as well as activity realized.
4. Approve the due process by which any guidelines, recommendations or standards are to be agreed and promulgated.
5. Approve the due process for issuance of public statements.
6. Determine external relations policies in accordance with strategic plan.
7. Approve the policy regarding the purchase of assets and disposition of assets held by the IAA.

8. Prepare strategy proposals and material for discussions at Council meetings.
9. Recommend to Council a strategic plan and updates to it as conditions warrant.
10. Recommend to Council the budget and membership fees for each year.
11. Recommend to Council future Council and Committee meeting venues.
12. Appoint Chairpersons and Vice-Chairpersons of Committees (other than for Executive and Nominations) and Task Forces and Committee members that are not Delegates appointed by Full Member Associations as recommended by the Nominations Committee.

This revised set of duties for the EC would ensure that the time of members at Council meetings is used to the best advantage, so that Council members can provide input into strategic policy as it is being developed in an efficient and effective way. The EC could continue to appoint a Task Force on Strategic Planning to assist it in its role as creator of ideas of a strategic nature and to write documents with alternatives for Council to deal with.

Vice Presidents – By establishing coordination/oversight roles for new positions of Vice Presidents a number of positives can occur:

- a. Greater monitoring and coordination between related committees.
- b. Issues within a VP's area can be addressed with establishment of task forces instead of a full committee.
- c. Committees will be overseen by an interested VP rather than by the current Council/EC as a whole.
- d. Separation of oversight from execution.
- e. Develop an additional source of potential candidates for future Presidents.
- f. Elimination (or at least a reduction) of the “stovepipe” or “silo” mentality of Committees today (where interaction is limited).

Introducing a VP level would create a new layer of governance, but would also sharpen the focus of oversight. A possible negative is that current Committee Chairpersons might feel their status is diminished and that might affect their motivation.

How the Committees and Sections could be grouped under three VP's should be flexible and reflect the strategic direction of the IAA at the time. For the purposes of discussion, one possible scenario, based on the current structure, is:

VP – Education, Professionalism and Outreach

Education Committee, Accreditation Committee, Professionalism Committee, Advice and Assistance Committee, Supranational Relations Committee, Member Services Committee, International Education Program Committee, AWF Section, relationships with World Bank, WTO, IADB, ADB, USAID, etc.

VP - Insurance and Benefits

Insurance Regulation Committee, Insurance Accounting Committee, Pensions and Employee Benefits Committee, Social Security Committee, Life Section, ASTIN Section, PBSS Section, the IAAHS Section, relationships with IAIS, IASB, IOPS, ISSA, WHO, ILO, OECD, CEIOPS, IAASB, IFAC, NAIC, etc.

VP - Finance, Risk and Investment

Financial Risk Committee, AFIR Section, relationships with GARP, PRMIA, ERMII, etc.

The persons elected as Vice Presidents responsible for these groupings could be reassigned from year to year to oversee different groups.

We envisage that the EC would meet more frequently than the IAA Council and Committees, although some meetings could be by telephone. Note that currently Article 10 of the Statutes calls for Council to meet for an Annual Meeting per year (not twice). It is possible with a more active EC that this could become a reality.

The meeting of the existing EC (Officers, Committee Chairs and Section Chairs) would be discontinued to allow the VP's to meet with their Committee/Section chairs in connection with Council meetings to discuss points of common interest and to coordinate their current and future activities.

Nominations Committee – We do not propose any change to the structure of the Nominations Committee membership at this time. However, the responsibility for developing and updating TOR's would be assumed by the EC from the current Nominations Committee TOR's, leaving the Nominations Committee with the duty of only recommending people for officers and chairmanships and other official roles within the IAA. Certainly more needs to be done to explain to Council how the Nominations Committee works, and this is to continue to improve at the Council meeting in Mexico City. It is possible that some of the members of the Nominations Committee could be elected by Council in a competitive election in the future.

6. Other Items to be Addressed in the Future

There were many other items in the survey that have not been discussed so far. Many go beyond the scope of a discussion paper on Governance issues. However, for completeness, some brief comments on them are:

Of those who responded, 56% felt their member association was willing to accept **international standards** (Question 7).

The respondents to the question about **non-actuarial involvement** in the oversight of the IAA's activities felt more negative than positive. At this point, that seems to be something more critical at the member association level than at the IAA level. It is possible that in the future the IAA could bring in non-actuaries in the standards development process (Question 10).

We would suggest the **fast track procedure** be used for all responses to consultation and public statements, but we are not in favour of its use for approving IASPs. Of those who responded, 68% felt it should apply to all public statements (Question 12).

Given that an appropriate case can be made, 42% of the respondents felt their member association would be willing to support a **dues increase**, as compared to 24% being unwilling (Question 13).

More respondents felt that the principle of **subsidiarity** should be applied more restrictively (41%) than less restrictively (27%) (Question 14).

Slightly more respondents felt a delegate from their member association could **vote on newly introduced or amended issues** without prior consultation with his/her association (34%) than not (28%) (Question 15).

Of those who responded, 43% did not have their **expenses reimbursed** by their association to attend the semi-annual meetings or 53% at other times (Questions 16-17). As for participation, 45% **refrained from participating** in relevant IAA activities due to financial constraints at least sometimes and 75% refrained from participating in relevant IAA activities due to time constraints at least sometimes (Questions 18-19).

7. Conclusion

The TFSP looks forward to discussion of these governance points at the Council meeting in Mexico City on April 18. In order for the discussion to be most fruitful, it would be beneficial if this paper could be discussed within each member association in advance of the Council meeting. It is expected that the comments received at Council will be given serious consideration by the TFSP as it prepares a specific recommendation, in the form of a motion to revise the Statutes and Internal Regulations to be adopted by Council in October in Dublin, to implement an improved form of governance for the IAA. Thank you very much for your input to date and we look forward to more input in the future.

Respectfully submitted,

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