

## A COMMUNICATION FROM THE IAA PRESIDENT, HILLEVI MANNONEN



These last couple of months as President of the IAA have been exciting and busy times for me. I have learned a lot and I am impressed with the commitment to the work of the IAA by our colleagues. The email traffic is like rush hour all the time! I have not yet become accustomed to the thrill of sending an email to

a colleague on the other side of the globe and getting an immediate response. I want to thank all of you for your selfless support of the IAA and for your help with my work.

But beyond the email network, it is inevitable that the increasingly global market will require a worldwide prudential framework which will touch each and every actuary in their professional life. The IAA provides us with a forum to help keep our profession in tune with a moving world. To ensure that the global framework is consistent with fundamental actuarial principles, it is important that we, as a profession, offer our expertise to influence this development. The IAA conducts beneficial exchanges with major international regulatory organizations. They have invited us to participate in their work which shows the respect and appreciation for our profession and its contributions.

We constantly interact with other professionals. Actuaries are quite often the professionals on whom other people rely when they need independent opinions regarding liability estimates, contributions or premiums. It is important that we maintain accountability and credibility in the eyes of other

professions. This is a substantial challenge the IAA must address through its committees and sections. The strength of the IAA lies within the voluntary work of the many committed actuaries who share their valuable time and knowledge for the benefit of the global profession. We should attribute the rewards of the IAA's achievements to these colleagues. On the other hand, being so dependent on volunteers, it is essential that we clearly prioritize our goals and focus our limited resources accordingly. It remains important to decrease the workload of the committee chairpersons by involving the committee members more closely in the work and by looking for additional resources. In April, the Council and committees will gather in Mexico City for the first meetings of the year. We will then have the opportunity to discuss the goals of the IAA and the means to achieve them. In this ever-changing world, we need to continually develop our own professional education and

### IAA Newsletter

March 2007

#### CONTENTS

- **A Communication from the IAA President, Hillevi Mannonen**
- **Join the Fiesta!**
- **The Results Are In!**
- **Measurement of Liabilities for Insurance Contracts: Current Estimates and Risk Margins**
- **News from your Sections**
- **Join or Renew your Membership in the IAA Sections**
- **IAA Outreach Activities**
- **Other Events**
- **News from Member Associations**
- **Miscellaneous**

#### OFFICERS

Hillevi Mannonen, President  
Yves Gu erard, Secretary General  
David G. Hartman, President-Elect  
Jean-Louis Mass e, Immediate Past President

knowledge. Originally, the IAA was established to organize international actuarial congresses. The IAA has been faithful to its roots, but the tree has borne an unexpected variety of fruits. The IAA encourages professional research and development. You may be interested in life or non-life, pension, health or social security issues. You may be working with insurance or in another financial field, but you will always find a special section to meet colleagues with similar interests. We now have a section for every actuary. In May and June of this year, all of the IAA sections have conferences planned. I want to thank the volunteers for their hard work in organizing these events. I look forward to seeing you at these events!



Hillevi Mannonen, IAA President 2007

## JOIN THE FIESTA!

The IAA Council and committees are all set to meet in Mexico City from April 15 to 18, 2007. If you have not already registered, it is not too late to join us. All the details, including the [registration form](#), are available on the IAA Web site ([www.actuaries.org](http://www.actuaries.org)) under the Events button by selecting Council and Committee Meetings, Mexico.

The IAA is looking forward to the warm hospitality of its Mexican members!



## THE RESULTS ARE IN!

After the intense discussions at the Council meeting in Edinburgh on issues such as the IAA governance and its strategic plan, the Task Force on Strategic Planning (TFSP) developed a questionnaire which was sent at the end of January to all Council and committee delegates, and to association Presidents and Correspondents. One hundred and eighteen out of a total of 430 individuals have responded. Thank you! The [results](#) have now been compiled and are available on the IAA's home page ([www.actuaries.org](http://www.actuaries.org)) under Hot Topics. Remember that you must be logged in as a member to view the results. The TFSP has now considered the responses and prepared a [discussion paper](#) for the Council meeting in Mexico City on April 18.

## MEASUREMENT OF LIABILITIES FOR INSURANCE CONTRACTS: CURRENT ESTIMATES AND RISK MARGINS

### IAA *ad hoc* Risk Margin Working Group -- Exposure Draft (26 February 2007)

On 26 February, the IAA Risk Margin Working Group (an ad hoc joint working group of the Insurance Accounting Committee, Insurance Regulation Committee and Solvency Subcommittee) issued for public comments a [paper on the measurement of insurance liabilities](#), with a particular focus on current estimates and risk margins.

As you may be aware, the International Accounting Standards Board (IASB) over several years has been developing a discussion paper for the measurement of liabilities for insurance contracts (Phase 2 of its Insurance Contracts project, scheduled for availability in March). The IAA Insurance Accounting Committee has been very active in preliminary discussions on this paper. At the same time, the International Association of Insurance Supervisors (IAIS) has been discussing approaches to measure liabilities (technical provisions) for insurance contracts in the



international regulatory context. For both general purpose reporting and regulatory reporting, the expectation is that the measurement of these liabilities will include at least the elements of discounting, current estimates and risk margins (representing the uncertainty around the current estimate).

In mid-2005, the IAIS had asked the IAA for assistance in its development of approaches to the measurement and assessment of the liabilities for insurance contracts. Included prominently was a request for assistance with a key element of these liabilities, the risk margin.

While this work has been undertaken at the request of the IAIS, it can be noted that the IASB is also interested in this work – most recently referred to in the Observer Notes for the February IASB Board meeting. In addition, the IAIS has expressed in its May 2006 Second Liabilities paper (*Issues arising as a result of the IASB's Insurance Contracts Project – Phase II: Second Set of IAIS Observations*), “that it is most desirable that the methodologies for calculating items in general purpose financial reports can be used for, or are substantially consistent with, the methodologies used for regulatory reporting purposes, with as few changes as possible to satisfy regulatory reporting requirements.”

Over the last year and a half, the ad hoc Risk Margin Working Group held several meetings and conference calls, and a lot of e-mail exchanges to develop the report. At the IAA meeting in Edinburgh, a preliminary draft of the report was discussed. Since then, the report has been further refined and expanded to more clearly address the issues involved.

The Exposure Draft includes a discussion and examples illustrating several of the most important measurement issues involved in the estimation of liabilities for insurance contracts. It contains:

1. A review of the risk concepts presented in “A Global Framework for Insurer Solvency Assessment” (2004, the IAA's Blue Book) on the inter-relationship of risk concepts, including which risks should be reflected in liabilities and which in capital.
2. A discussion of the considerations involved in current estimates based on expected present values of the net obligations generated by insurance contracts that are appropriate for use in general purpose and regulatory financial reporting.
3. An identification of methods that can be used to determine risk margins in the context of the corresponding current estimates. Particular focus is given to two such methods, the “cost of capital” method and the various statistical methods that reflect the uncertainty of the risks as expressed by the moments of the probability distribution of the risks, referred to as the “quantile” methods. In that section, through several examples and relevant information about the risks involved, it demonstrates how the types of models used to determine capital levels in the cost of capital method can also be used as an input to the application of quantile methods.
4. The implications of how and where to recognize four approaches to risk mitigation for general purpose and regulatory financial reports are discussed. They include pooling, reinsurance, risk offsetting, risk diversification and the use of contract adaptability features, including participating and other non-guaranteed features.
5. And lastly, the paper includes extensive examples on the various approaches to set risk margins.

Despite the fact that the Exposure Draft is the result of extensive discussions and in fact is rather voluminous, the Working Group believes it will continue to evolve, based in part on the comments that hopefully will be received, particularly given further developments in the area of insurance accounting.

Nevertheless, the Insurance Accounting Committee, Insurance Regulation Committee and Solvency

Subcommittee as “parent” committees of the Working Group, believe the current version of the paper is an important milestone and provides insight into the role actuaries can (and should) play in the measurement for insurance contract liabilities.

The three committees encourage the worldwide actuarial community and other interested parties to review this Exposure Draft and provide comments and suggestions for its future enhancement. Further worldwide discussion of this important topic is needed.

A link to the [cover letter](#) with specific questions can be found on the homepage of the IAA web site ([www.actuaries.org](http://www.actuaries.org)) under the “Deadlines box”. There you will also find the [Exposure Draft entitled, “Measurement of Liabilities for Insurance Contracts: Current Estimates and Risk Margins.”](#) Please submit your comments to [katy.martin@actuaries.org](mailto:katy.martin@actuaries.org) by May 21, 2007. Note that any earlier comments provided prior to the IAA Committee meetings in Mexico City would be appreciated.

## NEWS FROM YOUR SECTIONS

### Life Section Seminar

Mexico City, Mexico — 19 April 2007

[REGISTRATION OPEN](#)



The Life Section, in conjunction with the Asociación Mexicana de Actuarios (AMA), is pleased to invite you to a seminar on “Solvency Management”. The

seminar will include lectures on Enterprise Risk Management, Solvency II and IFRS.

[Program](#) and [registration form](#) available online:

### 2nd International Health Colloquium (Website) Cape Town, South Africa — 13-16 May 2007 [REGISTRATION OPEN](#)

The Colloquium will feature an in-depth scientific program with highly informative keynote speakers and expert panel sessions to



provide meaningful ideas for your professional practice. In addition, social events will provide opportunities to meet and share ideas with your colleagues from around the world.

Program and registration form available online: [www.iaahs2007.com](http://www.iaahs2007.com)

### 2nd International PBSS Colloquium (Website) Helsinki, Finland — 21-23 May 2007 [REGISTRATION OPEN](#)

The 2<sup>nd</sup> PBSS Colloquium will be held in Helsinki 21-23 May 2007. The last day of the Colloquium (May 23) will include a joint programme with the 15<sup>th</sup> International Conference of Social Security Actuaries and Statisticians organized by the ISSA.



The preliminary program is now available on the website [www.actuaries.org/pbss2007](http://www.actuaries.org/pbss2007).

Confirmed speakers include:

- Pablo Antolin (OECD) – Annuities and longevity risk
- Lans Bovenberg (NETSPAR) – Towards optimal pension contracts

- David Kingston – Report of the Financial Economics Task Force of the IAA
- Chris Daykin – The implications of longevity for risk-sharing in public and private pension schemes
- K.G. Scherman – The Swedish NDC system. A critical assessment
- Erkki Liikanen (The Bank of Finland) – Ageing and financial markets

Almost 30 papers, by both practitioners and academics, will be presented on the themes of:

- actuarial valuation methods and assumptions;
- investment strategies and risk management;
- projection methods for pension and social security financing; and
- longevity and annuitization, risk-sharing in pension design.

Participants at the PBSS Colloquium may also register to attend the Thursday and Friday sessions of the ISSA Conference. Please visit [www.actuaries.org/pbss2007](http://www.actuaries.org/pbss2007) to register online or download a registration form, or e-mail the secretariat [pbss2007@actuary.fi](mailto:pbss2007@actuary.fi) with any questions.

## 1<sup>st</sup> International IAA Life Colloquium (Website) Stockholm, Sweden — 10-13 June 2007 REGISTRATION OPEN



- Topics to be discussed include:
- Mortality/longevity and pricing of annuities
  - Cost of embedded options
  - Valuation of life

- companies and accounting
- Traditional and dynamic solvency (compare Solvency II) combined with sensitivity of risk
- Disability insurance, theory and practice

The last day of the Colloquium (June 13) will include a joint programme with the 16<sup>th</sup> AFIR Colloquium. The AFIR Colloquium will be held in Stockholm from 12-15 June 2007.

## 16<sup>th</sup> International AFIR Colloquium (Website) Stockholm, Sweden — 13-15 June 2007 REGISTRATION OPEN

The opening day of the Colloquium will include a joint programme with the first Colloquium of the recently founded Life



Section of IAA. The Life Colloquium will be held in Stockholm from 10-13 June 2007.

On the afternoon of the last day of the Colloquium, 15 June 2007, participants will be invited to the CEA General Assembly Seminar on insurance related topics. The Comité Européen des Assurances (CEA) is the organisation of European insurance companies. In the evening, the participants will be invited to the CEA Banquet at City Hall, where the Nobel Prize Banquet takes place every year.

## 37<sup>th</sup> ASTIN Colloquium and 50th Anniversary Celebration (Website) Orlando, United States — 19-22 June 2007 REGISTRATION OPEN

This event, which will commemorate ASTIN's 50<sup>th</sup> Anniversary, will be held 19-22 June 2007 at the world renowned *Disney's Contemporary Resort* in Lake Buena Vista, Florida in conjunction with the Casualty Actuarial Society's Spring Meeting.

The full provisional programme is available on the website. Confirmed speakers include:



- Dr Morton Lane – Does securitization threaten to replace or improve traditional markets?
- Professor Stephen D'Arcy – ASTIN's next greatest contribution
- Dr Naomi Robbins – Visual presentation of quantitative information
- Professor Hans Bühlmann – History of ASTIN

Over 40 papers, by practitioners and academics, will be presented on the themes of risk management, reserving and pricing. Visit the website [www.actuaries.org/astin2007](http://www.actuaries.org/astin2007) for a complete list of papers.



Social activities include an excursion to NASA with dinner in the Rocket Garden and a final Gala Dinner at Epcot® to celebrate the

50<sup>th</sup> Anniversary of ASTIN.

Participants who register for both the CAS Spring Meeting and the ASTIN Colloquium events will benefit from a reduced registration fee. All details can be found at [www.actuaries.org/ASTIN2007](http://www.actuaries.org/ASTIN2007). The Colloquium promises to provide outstanding learning and networking opportunities. The CAS is eager to provide an evocative setting for general insurance actuaries from around the world to exchange knowledge and ideas as well as form and nurture intellectual relationships.

### Other ASTIN Business

At the ASTIN General Assembly in Orlando in June, 2007, the entire membership of the ASTIN Committee will be up for election. New nominees are welcome, but those who have received the written endorsement of their local association are given preference.

A revised set of the ASTIN Rules will be presented to a vote at the meeting as well.

### IACA Section (Website)

The IACA Section holds biennial meetings with the next one scheduled to take place from 4-7 May, 2008 in Boston, USA in conjunction with the IAHS and PBSS Sections. This year, the Section will hold IACA sessions at various actuarial events to be held with the [East Asian Actuarial Conference](#) in Tokyo, Japan (9-12 October 2007) and at the [Conference of Consulting of Actuaries Annual Meeting](#) in San Antonio, TX, United States (21-24 October 2007).

## JOIN OR RENEW YOUR MEMBERSHIP IN THE IAA SECTIONS

Annual membership fees for all sections are low at \$40 CAD each (except for AWF whose dues are \$20 CAD) which, depending on conversion rates, translates into approximately \$35 US or €30. You should have recently received from your home association a call for dues to the IAA Sections for 2007. Please review this information carefully and renew your dues immediately to avoid missing out on important developments within your section and to continue to receive information on a timely basis. If you are not already a member, it is not too late to join. Contact your home association.

## IAA OUTREACH ACTIVITIES

### Third International Professional Meeting of Leaders of the Actuarial Profession and Actuarial Educators in English-speaking Africa – June 7-9, 2007 – Nairobi, Kenya

#### BUILDING UP THE ACTUARIAL PROFESSION IN AFRICA

This meeting is convened by the International Actuarial Association (IAA) through its Advice & Assistance Committee and supported by the IAA Fund.

The Meeting aims to bring together, from the countries of English-speaking Africa, a representative group of leaders of national actuarial associations, promoters of future national actuarial associations, those concerned with actuarial education, from both universities and actuarial

associations, and actuaries working with regulators and supervisors of financial institutions, in particular insurance companies and pension funds.

The emphasis on this third meeting will be on:

- the development of the actuarial association as a professional body;
- the role of the actuary (e.g. as appointed actuary) and the actuarial association in the regulation and supervision of insurance companies and pension funds;
- professionalism and the role of actuarial standards;
- the education of actuaries and the promotion of actuarial courses in universities
- the establishment of the actuarial profession in new countries and
- the implications for actuaries of the development of international accounting standards.

## 9<sup>th</sup> Global Congress of Actuaries – Mumbai, India – February 12-13, 2007

President Hillevi Mannonen represented the IAA at the 9<sup>th</sup> Global Congress of Actuaries in Mumbai, India February 12 and 13, 2007. Her [opening](#) and [closing](#) addresses are available for download.



President Hillevi Mannonen participates in the inaugural ceremony.



President Hillevi Mannonen delivers her opening address

## OTHER EVENTS

### ALM - Asset Liability Management Course – April 23-27, 2007 – Prague, Czechoslovakia

Organized by the Society of Actuaries and co-sponsored by the IAA. The course has been redesigned to include a pensions track as well as the insurance track, and a new five-week e-learning course for those who register by the early bird deadline. In addition, this year the course includes a master class and seminar series.

You can find more information on the course by downloading a PDF of the brochure at [www.nexusriskmanagement.com/courses.htm](http://www.nexusriskmanagement.com/courses.htm).

### European Actuarial Academy – Plenary Session and Exam – Tallinn, Estonia

Having successfully started its e-learning modules in January, the European Actuarial Academy is pleased to offer the possibility of taking part in the plenary session and exam for:

- **Module 8: General Insurance I:** June 11-13, 2007
- **Module 11: Stochastic Foundation:** June 14-16 2007

As a special offer, an **introductory discount of 50 %** will be deducted from the module prices. Register



now and **double your savings** with the early-bird-price and the introductory discount!

Early-bird-dates:

Module 8: until May 14

Module 11: until May 17

Further Details available at [www.actuarial-academy.com](http://www.actuarial-academy.com) (Education for Actuaries)

## European Actuarial Academy Seminar - Asset-Liability-Management & Portfolio Management – June 7-9, 2007 – Kiev, Ukraine

Organized by the European Actuarial Academy (EAA) in conjunction with the Society of Actuaries of Ukraine. This seminar is especially suited for actuaries or actuarial trainees directly or indirectly involved in issues with regard to financial risk management and solvency within insurance companies. Details are given on the [EAA Website](#).

## European Actuarial Academy Seminar – Basics of Investments for Actuaries – June 21-22, 2007 – Vienna, Austria

Organized by the European Actuarial Academy in conjunction with the Actuarial Association of Austria. This seminar will focus on practical knowledge you need to make sure you can follow the assets in your company for solving the Solvency II, risk management, etc. It will give you a basic insight into the activities of asset managers and portfolio managers with a bias to funds as investment tools.

Registration and further information on EAA-seminars is available on the [EAA Website](#).

## 20<sup>th</sup> International Summer School 2007 of the Swiss Association of Actuaries Market-valuation Methods in Life and Pension Insurance

Dates: Monday, August 20 to Friday, August 24, 2007  
Location: University of Lausanne, Lausanne, Switzerland

Scientific Directors: Thomas Moller and Mogens Steffensen

The course is based on the new book entitled *Market-valuation Methods in Life and Pension Insurance* by Thomas Moller and Mogens Steffensen.

For more information and online pre-registration, see the web site: [www.saa-iss.ch](http://www.saa-iss.ch).

## Long Range Planning

The International Actuarial Events Calendar is the perfect tool for your long range planning. Visit it often through the [link](#) on the IAA's home page. Member associations are encouraged to post their events in the calendar to make the tool as useful as possible. If you have misplaced your association's login and password, send an email to [secretariat@actuaries.org](mailto:secretariat@actuaries.org).

## NEWS FROM MEMBER ASSOCIATIONS

### Institute of Actuaries of Australia (Website) Re-establishment of International Committee

The Institute has re-established its International Committee, headed by past President Chris Lewis. The Committee will have a range of tasks including:

- contributing to the strategic direction of the Institute as regards its international activities
- actively identifying and promoting opportunities for members internationally and facilitating communication and liaison within the profession
- furthering the objectives of the Institute by providing assistance (as requested) to regional actuarial associations

### 2007 Biennial Convention

The Convention is shaping up as one of the most exciting ever under the theme of "Adventures in Risk". The Convention will feature plenary speakers from the UK, US, Canada and Switzerland meaning that the Convention will be a truly international event. In addition, Enterprise Risk Management Institute International (ERM-II) will hold its Board meeting to coincide with the Convention which will

bring with it a range of additional high calibre speakers and delegates. Plenary sessions have been themed to focus on the key drivers of success namely global forces, risk management and global issues. A prize will be awarded for the best paper presented at the Convention.

### Deutsche Aktuarvereinigung (DAV), Germany (Website)

#### Vision and Mission Statement

As a consequence of the 2005/06 membership survey, the DAV has launched a discussion in order to develop a new vision and mission statement for the association. A task force has been established to prepare a first draft of the statement for the ensuing consultation period with the members of the DAV. The final vision and mission statement will be adopted at the General Meeting in 2008.

#### Annual Meeting 2007 in Berlin

The Annual Meeting of the DAV and its scientifically orientated partner organisation DGVFM will take place from April 25–27, 2007 in Berlin. The conference will start on Wednesday with the sixth Scientific Conference of the DGVFM. It aims at linking applied research with the actuarial practice in the insurance and finance industry. On Thursday, the meetings of the German Sections – LIFE, AFIR, ASTIN, HEALTH and PENSION – will take place. The General Meeting of the DAV on Friday will be opened with three lectures by representatives of the European Commission, CEIOPS and the Groupe Consultatif on the current state of affairs of the project “Solvency II”.

The DAV and DGVFM anticipate over 1,000 guests and members to the conference in Berlin, among them IAA President Hillevi Mannonen.

#### Scientific Publication “Blätter der DGVFM”

Beginning with the April 2007 issue, the renowned scientific publication “Blätter der DGVFM” will be published by Springer, the world’s second-largest specialist publisher focusing on science, technology and medicine. The DGVFM is convinced that this new partnership will create added value for its

members and will strengthen the scientific field of insurance and financial mathematics in the German speaking countries.

### Faculty of Actuaries, United Kingdom (Website)



Stewart Ritchie, the Faculty of Actuaries President, handed a cheque for £70,000 to Jon Heggie, CHAS Fundraiser, South East Scotland on Monday 19

February, in Edinburgh. This was the result of the fund raising efforts to celebrate the Faculty of Actuaries’ 150<sup>th</sup> anniversary and included a number of donations from member associations of the IAA.

### Institute of Actuaries, United Kingdom (Website)

We are delighted to note that Michael Pomery, Past President of the Institute of Actuaries, was awarded a CVO (Commander of the Victorian Order) in the 2007 New Years Honours, for actuarial services to the Royal Households. Congratulations Michael.

## MISCELLANEOUS

### Actuarial Books Available

The IAA recently received several donations of actuarial books ranging from seminar, congress and colloquia transactions to the proceedings of various actuarial associations such as the UK Institute, the Society of Actuaries and the Canadian Institute of Actuaries, to books on topics of actuarial mathematics and science. The IAA is ready to donate these books to actuarially developing associations for whom these would be an asset, subject to the association assuming the cost of shipping. Please contact [Céleste Leclerc](mailto:Celeste.Leclerc@actuaries.org) at the IAA Secretariat if you are interested in consulting the full list.