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First Iberian Congress of Actuaries

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President of the IAA (2008)

**The IAA and Meeting the Challenges
to the Actuarial Profession**

Thank you for your kind introduction. Thank you also for inviting me here to join in this important first Iberian Congress of Actuaries. I hope that there will be many more such Congresses in the years to come.

Madame and Mister Presidents, other honoured guests and dear colleagues - I am privileged to speak at this Congress on behalf of the International Actuarial Association - the IAA - in my capacity as its current President. I also bring you greetings and best wishes from all the other Officers of the IAA. To me, being able to participate in meetings like this is the best part of the IAA presidency. With your permission, I will speak in English.

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On behalf of the IAA, I offer my congratulations and sincere thanks to all those whose efforts made this first Iberian Congress of Actuaries possible - to the distinguished speakers and to all of you who have accepted the invitation of the organizers to meet in this great city and respond in a timely manner to the challenges of strategic importance to actuaries. I am happy to see so many of you here.

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While the IAA holds an International Congress of Actuaries every four years, it is especially beneficial to hold regional congresses such as this one between ICA's to share actuarial knowledge and build relationships. Speaking of ICA's, the last one was in Paris in 2006 and I would like to invite all of you to plan to attend the next ICA in Cape Town, South Africa in March of 2010, and after that in Washington, DC, in the spring at cherry blossom time in 2014.

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Let me explain a little about the IAA. The IAA is a not-for-profit and non-political, non-governmental organization with its Secretariat in Ottawa, Canada. There are currently 58 full member associations plus 23 associate member associations. There are also 3 institutional members of the IAA: the International Association of Insurance Supervisors (IAIS), the International Social Security Association (ISSA), and the International Accounting Standards Board (IASB). **SLIDE 5** Virtually all fully qualified actuaries around the world belong to the IAA so that the IAA full member associations comprise over 43,000 qualified actuaries from 102 countries, to who should be added a significant number of actuaries from Associate Member associations. The IAA serves its members through seven Sections covering various areas of practice and 15 Committees, plus many subcommittees and task forces, in *“moving the actuarial profession forward internationally.”*

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The IAA, founded in 1895, is celebrating the tenth anniversary this year of its restructure as an association of associations. We will be publishing a paper soon recounting the history of the IAA and highlighting significant accomplishments of the IAA during the past ten years which we can celebrate. The IAA Council and its Committees will be meeting in Québec City in Canada, from June 11th to 14th.

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It is through its Committees and Sections that the IAA helps enhance the efficiency of its member associations in developing and optimizing the use of the pool of scientific knowledge of the global actuarial profession. By leveraging the combined capacity of its members, it can more efficiently

serve the public interest and facilitate the expansion of the intellectual capital of the actuarial profession and the scope, quality, and availability of actuarial services. It is the full member associations that appoint the representatives who are voting members of the 15 or so Committees that serve the profession, propose standards, define the syllabus and education requirements, and prepare briefs and public statements for international regulatory bodies like the IAIS, the IASB, and the OECD. Member Associations of the IAA are called upon to participate and contribute to the global effort.

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Maybe because of its small numbers, the actuarial profession has been motivated to pool efficiently its resources and is truly organized on a global basis in a way that optimizes the synergy within the actuarial profession. I would like to point out a few key activities that the IAA is coordinating for the benefit of its members:

- in 2004 the IAA published “*A Global Framework for Insurer Solvency Assessment*”. A revised edition incorporating the feedback of users is in the planning stages.

- In 2006, the IAA started a major initiative to develop an *International Actuarial Education Program (IAEP)*. This program is intended to assist member associations in providing high-level actuarial education and to open new opportunities for students around the world by providing access to that education.

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- Risk management has widened to *Enterprise Risk Management*, a new concept of examining the various risks of entities as a whole. The IAA’s ERM strategy aims to “*further and establish the position of the actuarial profession as the pre-eminent profession in the field of enterprise risk management*”. Work is ongoing on the concept of an internationally recognized qualification as risk specialist which Harry Panjer will address later today.

- later this year we will publish an Education Monograph on the Topic of Stochastic Processes and Modeling in Financial Reporting and Capital Assessment

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- IFRS is becoming the basis of GAAP in most major jurisdictions outside North America and implies principle-based standards, as opposed to rules-based standards (e.g. US GAAP). The IAA has published in 2005 and 2007 nine Insurance Practice Standards to guide its members in implementing the convergence and two more are on the agenda to be adopted in June.

In relation to many areas of actuarial practice, the development of one standard which covers the possible (legal) implications in all countries would not be possible to achieve in practice and the same is true for the enforcement of a code of ethics and for country-specific qualifications. The IAA could not reliably deliver high quality services world-wide without the support of strong local associations in each jurisdiction to provide an adequate professional environment for practicing actuaries. Hence, autonomy and authority also entails responsibilities for the local or national associations.

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As part of the tenth year observance, the IAA is involved in a strategic planning effort to guide it over the next several years. Earlier this year the delegates to Council supported the following statements of vision, mission and values for the IAA:

Vision

The actuarial profession is recognized worldwide as a major player in the decision-making process within the financial services industry, in the area of social protection and in the management of risk, contributing to the well-being of society as a whole.

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Mission

The mission of the IAA, as the worldwide organization of actuarial

associations, is:

- **to promote professionalism, develop education standards and encourage research, with the active involvement of its Member Associations and Sections, in order to address changing needs; and**
- **to represent the actuarial profession and promote its role, reputation and recognition in the international domain.**

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Values

The IAA adheres to the values of integrity, accountability, transparency, and objectivity when dealing with Member Associations, other stakeholders and the public.

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The next step in the strategic planning process is to identify strategic objectives to fulfill the mission and work toward the vision. The following six strategic objectives have been proposed to the Council of the IAA and are to be accomplished with the support of the IAA's Member Associations:

- 1. Identify, establish, and maintain relationships with key supranational audiences and provide them with actuarial input to improve the soundness of decisions being made on important issues with a global impact.**
- 2. Facilitate the use and expansion of the scientific knowledge and skills of the actuarial profession beyond the traditional areas of actuarial practice to help enhance the scope, availability and quality of actuarial services offered by individual members of its member associations.**
- 3. Establish, maintain and promote common standards of actuarial education, common principles of professionalism, and guidance for actuarial practice for use by member associations worldwide.**

4. Support the development, organization and promotion of the actuarial profession in areas of the world in which it is not present or is not fully developed.
5. Provide a forum for discussion among actuaries and actuarial associations throughout the world.
6. Promote and facilitate the globalization of the actuarial brand.

We look forward to further discussion of these strategic objectives and their related action plans over the next several months. The goal is to incorporate them into a strategic plan for the IAA that can be adopted by the Council of the IAA this year.

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These are pretty lofty objectives that will take years to accomplish. In the meantime, an underlying principle is that in order for them to be accomplished, we as actuaries need to earn the right to be heard.

Let me spend a few minutes enumerating some of the challenges and opportunities we face as actuaries in the near term as we earn the right to be heard.

Actuaries will continue to leverage their qualifications and strong professional standards in the years ahead. The distribution by area of practice has shifted, with life having lost its relative dominance in comparison to non-life, health, pension and social security, with sizable practices in Enterprise Risk Management, investments and compliance. Such shifting will likely continue.

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Of the 11 countries in the world with a population of over 100 million people, only 7 have Full Members of the IAA. The four large countries without a Full Member of the IAA are China, Bangladesh, Russia and Nigeria. If we look at

the countries on the basis of GDP, we miss only 2 of the top 10 – China and Russia. But both of them can be expected to qualify in the short term.

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Nonetheless, we operate in a broad framework of global economic and social development. There are significant economic, demographic and environmental factors at work. The population of the world is growing, aging and migrating. The needs for actuaries vary among developing, emerging, transitional and developed countries. One size does not fit all!

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Most of the work we do as actuaries contributes to the well-being of society as a whole. Part of it is financial – protecting the solvency and sustainability of both private sector and state entities through financial soundness and reserve adequacy criteria. Part of it is social protection – developing and maintaining systems of old-age income support and health care for people of all ages. Part of it is risk management – assessing risk and identifying ways of managing risk. We also contribute by playing a role in regulation and making sure our voice is heard whenever policy decisions are to be made.

I would like to discuss the challenges faced by the actuarial profession in the various areas of practice using the scientific Sections of the IAA as a guide.

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Looking at the ways the actuarial profession is addressing the challenges it faces and the opportunities it has in the health area, the Health Section of the IAA has numerous topic teams including: long-term care, long-term care financing sources, income protection, medical expense, critical illness, risk adjustment, traditional medicine, developing countries, public-private partnership, and most recently micro-health insurance. The Health practice used to be simpler and largely an annex to the Life practice mostly coming under Group Insurance. Although illogical, we paid a great deal of attention to pre-financing retirement income, but post-retirement health benefits were forgotten about. Longer life expectancies meant that retirees are becoming a larger group by comparison to the active work force and accounting rules have forced the recognition of post-retirement benefits in addition to

pensions. A large portion of medical and hospital expenses are incurred in the last year of life. Whereas governments used to cover retirees from their annual budgets, more of the burden is shifting to the private sector. The challenges to those in the Health practice are daunting as they advise payers on how to finance health care for the employed, the poor and the aging.

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Looking at the challenges and opportunities facing the pensions, employee benefits, and social security area, the Pensions, Benefits and Social Security Section of the IAA has objectives relating to actuarial involvement in pension reform and policy, employee benefits, share options and other total compensation components, planning, design, adequacy and system sustainability, the economics of pensions and social security, insurance, pre-funding and other financing methods, investment, asset/liability management, risk benefits and research. Current low retirement ages are unsustainable as longevity increases. Creativity will be needed to manage the transition to higher retirement ages, to address gender issues, more flexible forms of retirement, equitable pay-out options that favor income over inheritance, and the design of occupational schemes, where classic defined benefit designs are becoming increasingly untenable in many territories for a combination of reasons. In both the pension and life areas there will be a convergence towards being a large financial institution requiring sophisticated long term asset management including the control of mismatch.

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Looking at the challenges and opportunities facing the consulting practice area, the International Association of Consulting Actuaries Section of the IAA faces balancing the public interest and the fiduciary client relationship, of handling conflicts of interest, of actuarial communications, of new areas of actuarial consulting practice, of new developments in Enterprise Risk Management, and new developments in actuarial education. There are also challenges of international financial reporting standards, solvency standards, mergers and acquisitions, reserve adequacy, predictive modeling and reinsurance issues.

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Looking at the challenges and opportunities facing the Life Section of the IAA, it has as its purposes research in the life insurance field, promotion of new research among academics and practicing actuaries, promulgation of current research, access to current research, exchange of information knowledge and views, supply of practical information, support of technical development in developing countries, and provision of networking opportunities.

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Looking at the challenges and opportunities faced in the area of non-life, the objective of the ASTIN Section is to promote actuarial research, particularly in non-life insurance (sometimes known as general insurance, property/casualty insurance or short-term insurance), to push forward the boundaries of actuarial knowledge and to promote and facilitate an international exchange of views, advice, research and practical information among actuaries and other experts involved with all aspects of non-life insurance, risk management and wider applications of statistical and actuarial modeling. ASTIN is continually working to further develop the mathematical foundation of non-life insurance and reinsurance.

To condense it in one word, in multiple areas of practice, actuaries face the challenge of **SLIDE 24 RISK**. Risks to be addressed by actuaries include developments in new technologies and bio-technologies, new materials, genetically modified food and new living styles, to name a few. In the financial area, supervisory authorities in many countries are discovering that solvency can benefit from actuarial inputs. Catastrophic events are in the neighborhood of \$100 billion worldwide each year. Official's estimates for quake damages in Sichuan China on May 12th are in line with a 140 billion yuan (\$20 billion) assessment by AIR Worldwide Corp., a Boston-based risk modeling and consulting firm. Of this, up to 7 billion yuan (\$1 billion) may be insured losses, according to AIR which mean there is a huge market still to be developed. The losses due to the cyclone in Myanmar are also huge. At the other end of the spectrum more and more attention is being given to the huge collection of small risks that can be aggregated by creative approaches to MicroInsurance in life, non-life and health to improve the well being of a

large segment of the society often left without protection against the adverse financial consequences of risk.

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As a profession, we rely on Sections of the IAA to promote research and to help expand the frontiers of the profession, as well as building bridges to other related professions. They offer great opportunities for Continuing Professional Development of individual actuaries and to facilitate the exchange of views and information on an international basis among actuaries on matters affecting their professional responsibilities and business interests. However, an issue which transcends exchanging of information is the need to be proactive on issues within our area of expertise on which we can serve the public. I, for one, will be very disappointed if, in three, five or ten years, an issue comes to light that we knew about today as a profession but remained silent on it. If there are any such issues the IAA should be speaking out on, we have an obligation as actuaries to alert decision makers and the civil society to do them.

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As I looked over the program for this Congress, and saw topics covering many areas of actuarial practice with distinguished speakers who are presenting them, I was impressed. I congratulate the organizers for having done a terrific job of putting this Congress together! As participants, you have a treat in store for you as you listen to the presentations, discuss them, and learn from them.

I would like to reward the time and efforts many actuaries have invested in this Congress by offering publicly to host on the IAA website (www.actuaries.org) an electronic copy of the presentations to make them accessible to all actuaries, in the same manner as we do for International Actuarial Congresses and Section Colloquia. Posting presentations on the IAA web site makes them part of the Virtual Global Actuarial Library accessible through our customized search tool with a direct link to our Automatic Translation Tool, both accessible to all members on the IAA web site. This is in compliance with Article 3.3 of our Statutes, which reads: *“Advance the body of knowledge of actuarial science and its application.”*

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In closing, please let me emphasize that this Congress will be more successful if everyone participates actively in it.

Thank you for inviting me here, for being here yourselves, and for your attention. I look forward to speaking with many of you informally over the next three days. That completes my prepared remarks – are there any questions?