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Joint IAAHS/IACA/PBSS Colloquium May 4-7, 2008

Keynote Address – Monday, May 5, 2008

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SLIDE 1

Thank you for your kind introduction.

Section Chairs, other honored guests and dear colleagues - I am privileged to speak at this joint colloquium 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 the other Officers of the IAA.

On behalf of the IAA, I offer my congratulations and sincere thanks to all those whose efforts made this joint colloquium 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.

SLIDE 2 CONGRESSES

This is the first time ever that three Sections of the IAA have met jointly other than at Congresses. As you know, the IAA has an International Congress of Actuaries every four years for actuaries from every area of actuarial practice to join together and share knowledge. The last was in Paris in 2006, the next will be in Cape Town, South Africa (where the IAAHS held their last colloquium) in March of 2010, and after that in Washington, DC, at cherry blossom time in 2014. **SLIDE 3 MINI-CONGRESS** Since we are now midway between Congresses, this is sort of a mini-Congress. Based on the success of this joint colloquium, I would not be surprised to see plans made for two mini-Congresses for 2012 each involving three Sections – midway between the 2010 and 2014 Congresses – for the six of the seven IAA Sections which hold colloquia.

SLIDE 4 INTERNATIONAL ACTUARIAL ASSOCIATION

As you are aware, the IAA is the worldwide association of actuarial associations; fully qualified members of its full Member Associations are automatically members of the IAA; thus we hope to serve as a bond among actuaries throughout the world, together with the support of our 7 Sections and 58 full Member Associations, in *“moving the actuarial profession forward internationally.”*

SLIDE 5 IAA 10TH ANNIVERSARY

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.

SLIDE 6 STRATEGIC PLANNING VISION

As part of the tenth year observance, the IAA is involved in a strategic planning effort. 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.

SLIDE 7 STRATEGIC PLANNING MISSION

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.

SLIDE 8 STRATEGIC PLANNING VALUES

Values

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

SLIDE 9 STRATEGIC PLANNING NEXT STEPS

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 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.

SLIDE 10 CHALLENGES AND OPPORTUNITIES

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. As noted in the meeting materials, the theme for this conference is “Global Challenges and Opportunities Facing the Actuarial Profession.” That is a timely and appropriate theme that will help us focus on the things we need to do to earn that right to be heard.

Following my remarks, we will move into a panel discussion with several leaders of our profession to discuss in more detail what I would like to lay out next. Before that, let me spend a few minutes enumerating some of the challenges and opportunities we face in the near term.

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.

SLIDE 11 FULL MEMBERSHIP

Of the 11 countries with a population of over 100 million, 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.

SLIDE 12 ONE SIZE DOES NOT FIT ALL

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!

SLIDE 13 WORK AS ACTUARIES

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.

SLIDE 14 HEALTH

Looking specifically at the health area, the Health Section 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.

SLIDE 15 PENSIONS, EMPLOYEE BENEFITS AND SOCIAL SECURITY

Looking at pensions, employee benefits, and social security area, the PBSS 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.

SLIDE 16 CONSULTING PRACTICE

Looking at the consulting practice area, IACA faces the challenges of 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.

SLIDE 17 RISK

To condense it in one word, in multiple areas, actuaries face the challenge of 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.

SLIDE 18 SECTIONS OF THE IAA

As a profession, we rely on Sections of the IAA to promote research and to help to 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 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 time, an issue comes to light that we knew about today as a profession but remained silent on it. If there are any such issues IAA committees should be speaking out on, we have an obligation as Section members to alert them to do that.

As I looked over the program, 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 colloquium together! As participants, you have a treat in store for you as you listen to the presentations, discuss them, and learn from them.

SLIDE 19 CONGRATULATIONS TO THE ORGANIZERS

An electronic copy of the presentations made at this joint colloquium will be posted on the IAA web site making them accessible to all actuaries, in the same manner as we do for International Actuarial Congresses. They will be a 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.

SLIDE 20 THANK YOU

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

Thank you for being here and for your attention. Now let me introduce Paul Thornton who will moderate our panel to get our creative juices flowing even more.