

Global Challenges for the Actuarial Profession

Paul Thornton, President IAA

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Global Challenges for the Actuarial Profession

- Some key challenges and opportunities
- The Globalisation of the Actuarial Profession

Some key challenges and opportunities

- The Global Financial Crisis
- Solvency
- Financial Reporting
- Mortality and longevity

The Global Financial Crisis

- “Dealing with Predictable Irrationality – Actuarial Ideas to Strengthen Global Financial Risk Management” – IAA Feb 2009
 - Targeted at the Financial Stability Forum, Governments, and major financial institutions
 - Presented to the Joint Forum, of IAIS, BCSB, IOSCO
- “The Global Financial Crisis – What Next?” – IAA July 2009, focused more on insurance and pensions



Insurance Industry Issues

- Very low market interest rates lead to higher liability values - with low asset values, this leads to significant pressure on emerging earnings, capital positions and solvency
- Life insurers with significant capital guarantees or minimum interest rate obligations under intense pressure if unhedged
- Embedded Values drop
- Reduced credit ratings lead to decreasing new business while potential liquidity demands increase surrenders

Insurance Challenges in the EU

- Solvency II development has improved capacity to cope
- But Solvency II based on one year VaR (99.5%) risk measure
- This relates capital required to (recent) historic volatility, introducing pro-cyclicality - Economic Capital outcomes inadequate when higher volatility emerges

Prevention of future financial crises

The G 20's
common
principles for
reform:

- Strengthen transparency and accountability
- Enhance sound regulation
- Promote integrity in financial markets
- Reinforce international co-operation
- Reform international financial institutions

Actuaries believe
additional
measures are
needed:

- Introduction of more counter-cyclical regulatory arrangements
- Creation of Country Chief Risk Supervisor role
- Wider use of comprehensive risk management concepts in banks and non-regulated sector
- Improved use of ERM & risk governance

What Next?

- Can expect regulatory framework to be
 - reviewed
 - reformed
 - extended
- Can expect more discretion for regulators to vary stress tests and periods to restore capital requirements

Solvency issues for Insurance

- IAIS issuing Guidance on capital requirements, investments, enterprise risk management, internal models
- “Measurement of liabilities for Insurance Contracts; Current Estimates and Risk Margins”
– IAA April 2009
- IAA Working Group on The Role of the Actuary

Pension Security

Three principal mechanisms:

- Funding
- Insurance (eg PPF, PBGC, PSV)
- Creditor ranking on employer insolvency

Consequences of increased security

- Cost and risk rises, leading to employers scaling back, closing schemes to new entrants, closing schemes to future accrual
- Replacement schemes typically DC with much lower contribution input
- Pension provision reduced, employees work longer - if able to

Solvency for Pensions

- Groupe Consultatif draft report in Europe
“a holistic view is required, recognising the trade-offs implicit in social and labour law between the quality and quantum of pension benefits and the security of pension delivery systems.”
- Solvency II
“The European Commission, supported by CEIOPS should develop a proper system of solvency rules for pension provision, whilst fully reflecting the essential distinctiveness of insurance...”

International Financial Reporting for insurance

- Under constant debate for over 10 years
- Difficult to relate illiquid long-term liabilities to marked-to-market assets
- A particular issue has been “Own Credit Risk” – are the liabilities of weaker businesses smaller than for stronger, or is this nonsense?

International Financial Reporting for pensions

- Current standards unsound
 - assets marked-to market but liabilities projected for future salaries
 - discounting at corporate bond yield but can it be right for credit default risk to be reflected?
- Move to risk-free discounting of accrued liabilities?
- Current focus is on disclosure

Mortality and Longevity

- Social Security – the cost of old age support
- Health care – cost of public/private provision
- Pension funds – funding of DB schemes; adequacy of DC schemes
- Life insurers – solvency and pricing
- Care services – implications

Social Security and Health the most vulnerable to ageing



The Globalisation of the Actuarial Profession

- The IAA, vision and mission
- Links with supranational organizations
- Promoting the profession
- Education and qualification
- Standards



The Globalisation of the Actuarial Profession

- Minimum education requirements
- Code of professional conduct
- Information sharing
- Research
- Contacts with Supranational bodies
- Developing countries
- Global educational qualifications/examinations?
- Global actuarial standards?

The International Actuarial Association

- Originally formed in 1895 and reconstituted in 1998
- In 2010 the IAA has 62 Full Member Associations and 23 Associate Member Associations, representing over 50,000 actuaries in over 100 countries
- Extending accessibility to high quality actuarial services worldwide



The Vision of the IAA

- “The actuarial profession is recognised 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.”

The Mission of the IAA

- “To represent the actuarial profession and promote its role, reputation and recognition in the international domain”
- “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”



IAA Sections

- ASTIN – Actuarial Studies in Non-life Insurance
- IACA – International Association of Consulting Actuaries
- AFIR – Actuarial Approach for Financial Risks
- IAAHS – IAA Health Section

IAA Sections

- PBSS – Pensions, Benefits and Social Security
- AWB – Actuaries Without Borders
- LIFE – Life Section

Individual actuaries should join a Section to get involved and broaden their horizons



Institutional Members

- International Association of Insurance Supervisors – IAIS
- International Social Security Association – ISSA
- International Accounting Standards Board – IASB
- International Organisation of Pension Supervisors – IOPS

Close involvement by the IAA in these bodies



Targeting supranational organisations

- To raise awareness of actuaries
- To contribute to their work, through representation at meetings and joint projects
- To involve them in IAA discussions and developments

Supranational organisations

- High Priority: ADB, AfDB, GARP, IAIS, IASB, IOPS, OECD, PRMIA, WB
- Medium Priority: BCBS, CISS, EC, FSI, IAASB, IADB, ILO, IMF, IOSCO, ISSA, JF, WHO, WTO
- Others : APEC, BIS, EBRD, EIB, FASB, FSF, ICC, IFC, IDB, UNCTAD, UNO, USAID, WEF

Developing Countries

- Considerable assistance from UK and North American associations, and by the IAA Fund
- Much progress in Central and Eastern Europe and China - China Actuarial Association has been formed, will join IAA in future
- Slow progress in Africa and Latin America

IAA Fund Activities

- Leadership meetings
 - Kenya, Morocco, Nigeria, Ghana
 - Panama, Argentina
 - Russia, Poland, Croatia, Lithuania, Hungary, Latvia, Belarus, Czech Republic
 - Thailand, Indonesia, Philippines, Malaysia, Singapore
- Seminars and congresses
 - Ivory Coast, Moldova, Turkey, Lebanon, Jordan



Global Educational Qualifications

- Has been difficult to achieve consensus on a single global actuarial qualification
- Several Member Associations have joined forces to create a global qualification, Chartered Enterprise Risk Actuary (CERA)

Actuarial Standards

- 11 International Actuarial Standards relating to the application of Financial Reporting Standards (IFRS) of the IASB
- 1 International Actuarial Standard relating to social security reporting
- Currently classified as educational Practice Guidelines

IASP2 to be moved up to Model Practice Standard



International Actuarial Standards

- International Roundtable on Actuarial Standards, including the IAA, GC, UK, US, Canadian, Australian, French, German, Dutch, Japanese and Mexican standard setters
- Goals are to achieve convergence (in the short-term); to reach a single global actuarial standard for IFRS for insurance contracts (in the long term)

Summing up

- There are major global issues to which actuaries can and should contribute
- These go well beyond traditional areas of “life and pensions”
- The International Actuarial Association provides a vital vehicle for coordinating worldwide engagement

