Global Challenges for the Actuarial Profession

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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

  Targeted at the Financial Stability Forum, Governments, and major financial institutions
  Presented to the Joint Forum, of IAIS, BCSB, IOSCO

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 G20’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