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Immediate Past President of The IAA (2012)**

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Thank you for your kind introduction.

I am privileged to represent the International Actuarial Association – the IAA – as Immediate Past President but I also come as a current President of a major US based actuarial association.

We chose as the title for my presentation *Standards and Professionalism in an Evolving Environment - The International Actuarial Association Perspective*. I plan to give an overview of the IAA structure and activities. We hope to leave some time for questions as well. Over the last three years, I have had the opportunity to attend several conferences/meetings representing the IAA. A recurring theme has been related to emerging risks and daring solutions converging around the Global Economic Crisis of the last 5 years with titles like, ‘Beyond the Mandate’ and ‘Venture into Uncertainty, Capture Opportunities’. The whole world is moving faster and faster. Events from one region are having more and more impact on elsewhere in the World. Everything seems to be interconnected. Tally up the impacts mentioned in the news since the catastrophic events in Japan or the recent hurricanes Irene and Sandy and resulting floods in the Northeast United States. How have those events affected your actuarial/insurance assumptions and work projects? It seems that there are new risks emerging at every turn. Perhaps these risks have always been there but their importance is growing. Such risks call for daring solutions, solutions that are perhaps beyond our normal mandate, which was a theme in Australia last year for their Biennial Convention. Who is in a better position to address these risks through developing daring, creative and innovative solutions than actuaries? The nature of actuaries’ training prepares them to go beyond the mandate.

As the actuarial profession across the region continues to grow, challenges to actuaries are manifested. Interacting with actuaries at the international level provides a mechanism for knowledge and experience transfer. It also provides guidance and boundaries through Standards and Professionalism.

Why reinvent the wheel if it has already been invented somewhere else? Why let other professionals push their way into the actuaries practice areas? There are things actuaries can learn from actuaries’ in other countries, but the actuarial profession worldwide needs to enter into conversations so that such things as international standards and practice

reflect the established approaches present in some regions of the World while helping some regions and countries to adopt and implement standards and practices. Thanks again for inviting me. Let us move on to my main presentation.

Turning to the IAA, as you may be aware, the IAA is the worldwide association of actuarial associations. Together with the support of our member associations, we work towards *“moving the actuarial profession forward internationally.”* We look forward to the continued contributions of all actuaries to our common goal in this part of the world.

The IAA is a not-for-profit and non-political, non-governmental organization with its Secretariat in Ottawa, Canada. There are currently 64 full member associations plus 28 associate member associations. The IAA Council and Committee meetings were in Los Angeles in May and in Nassau, Bahamas two weeks ago. There are also 5 Institutional members of the IAA which I will talk about a little later and one Observer Member. Virtually all fully qualified actuaries around the world are represented in the IAA through their home association so that the IAA full member associations comprise over 60,000 qualified actuaries from over 100 countries, to which 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 as well as a number of Committees, Subcommittees, Working Groups and Task Forces.

The IAA is celebrating its fourteenth anniversary this year of its restructure as an association of associations but its origins date back to 1896. Even though we are still relatively young in our current form, we continue to evolve in our efforts to achieve our strategic objectives. In particular, over the last couple of years we have made significant changes to our governance structure to better serve and recognize our member associations as well as to be more nimble and quicker to act. Your association has been a member for the IAA’s entire existence, first as an Associate member becoming a Full Member Association in 2006.

I believe it is important to touch briefly on the accreditation ‘criteria’ for membership of the IAA – of which I shall mention only the most important. FMA’s must at all times satisfy the following criteria:

- They must not act in a manner that damages the reputation of the actuarial profession.
- They must have a code of professional conduct which must be consistent with certain principles which include:
  - an actuary shall perform professional services with integrity, skill and care and shall fulfill his/her professional responsibility to any client or employer;
  - an actuary shall act in such a manner that fulfills the profession’s responsibility to the public;
  - an actuary shall perform professional services only if competent and appropriately experienced to do so;

- an actuary is responsible for ensuring that his/her work conforms to applicable practice standards;
- an actuary shall be subject to the disciplinary procedures prescribed in the rules of his/her association.
- They must have a formal disciplinary procedure in place providing for appropriate sanctions, including termination of membership.
- If they adopt standards of practice, there must be a formal process in place to do so which meets laid down criteria.
- Continuing Professional Development is not required but is strongly encouraged.

Associate members of the IAA have a lesser set of criteria which have to be met and are encouraged and assisted to strive for FMA status.

Please see our organization chart. Our association is supported by just 10 staff members.

The mission of the IAA, as the worldwide organization of actuarial associations, is:

- to represent the actuarial profession and promote its role, reputation and recognition in the international domain; and
- 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.

During 2010, we adopted five strategic objectives with particular attention placed on Supranational Outreach and Actuarial Standards. The five strategic objectives are:

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. The Supranational Relations Subcommittee now Supranational Relations Committee is extremely active and recently the focus has been primarily on the regional development banks.
2. Facilitate the use and expansion of the scientific knowledge and skills of the actuarial profession, including 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. And this is the objective that section colloquia help to achieve by bringing actuaries from across the globe together, sharing and discussing discoveries and innovative ideas in all areas of actuarial science.
3. Establish, maintain and promote common standards of actuarial education, common principles of professionalism and model standards of actuarial practice for use by member associations worldwide. This is the focus of my presentation and I will elaborate on our work in this area later.
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. We have a standing committee and Section devoted to implementing this objective that are

working with several countries in Asia, Latin America, Africa and Eastern Europe towards developing the profession in these areas.

5. Provide a forum for discussion among actuaries and actuarial associations throughout the world. There are regular Congresses every four years, with the last taking place in Cape Town in 2010 (1600 delegates) and the next ones in Washington in 2014 and Berlin in 2018. Section colloquia also play a vital role in bringing actuaries together and sections are increasingly making use of webcasts which provide opportunities for actuaries to get together and discuss matters of mutual interest.

So, as you can see, the IAA is, at an international level, attempting to meet the many challenges of change that are sweeping across the globe. And while times are challenging, they are also exciting and stimulating. I believe we have been able to identify opportunities for the profession and position the profession as a useful, hopefully essential, contributor to the global financial debate, in the process making progress towards achieving our vision of being recognized as a major player in the decision-making processes and contributing to the well-being of society as a whole.

In considering the governance within the IAA, I believe there is an important principle included in the statutes which is particularly relevant in the context of a discussion on standards. This is Article 8, the Principle of Subsidiarity which reads as follows: “The IAA will restrict its activities to strategies and programs which require international co-ordination or direction or can be handled more efficiently across national and regional boundaries. It will not become involved with actions at the level of the Member Associations or regional groups of actuarial associations, except at the express invitation of such an association or group.

The IAA will therefore take any measures necessary to avoid duplication or overlap with the activities of Member Associations or regional groups of actuarial associations.”

Turning now to the topic of standards, may I commence with a quote from a speech by the Chair of the International Association of Insurance Supervisors (IAIS) made at the October 2010 IAA Council meeting in Vienna. I quote Peter Braümüller, “I encourage the IAA Council to step up to the challenge of producing global actuarial standards to complement the global supervisory and accounting standards and to improve the transparency, reliability and comparability of the global insurance sector’s financial and regulatory reporting.” Needless to say when the regulator says things like “encourage” you only ask how high you should jump – said in lighter vein!

Mr Braümüller went on to say, “Our standard setting goal is to: promote effective and transparent supervision of insurance markets through global, sustainable and coherent supervisory principles, standards and guidance, while minimizing opportunities for regulatory arbitrage. This area has a significant overlap with your objective to promote

common standards of actuarial education, common principles of professionalism and model standards of actuarial practice.”

Clearly there is a shared interest between the IAIS and the IAA in the area of International Standards of Actuarial Practice (ISAP's).

In 2004 the IAA involved itself in drafting and implementing practice notes. 12 such notes were adapted, 11 having to do with IFRS and 1 with Social Security.

The issue of international standards as such (and not merely practice notes) has been on the IAA's agenda for some time. The discussion became somewhat more urgent following the global financial crisis, the regulatory focus on the large multi-national financial groups as well as the development and refinement of international financial reporting standards.

In this regard the IAA is involved with several key stakeholders considering the convergence of international actuarial standards, the most important of which are:

- The Standard-Setters Round Table (SSRT) which is an informal discussion group of representatives from each of the major standard setting bodies – Groupe Consultatif, US, Canada, Japan and several others. The objective of the SSRT is to create a forum which will facilitate achieving globally accepted actuarial standards over an appropriately long timescale.
- The G-20 who have established the Private Sector Task Force of Regulatory Professionals. The task force also included representatives from the International Federation of Accountants (IFA), International Accounting Standards Board (IASB), and others. The PSTF was formed to prepare recommendations for the G-20 on regulatory reform with a focus on on global regulatory convergence.
- A report was submitted to the G-20 Deputies in September 2011 and updated in April 2012.
- The Groupe Consultatif which is working on practice standards applicable to Solvency II within the EU.
- The IAIS which has established a Common Framework for the Supervision of Internationally Active Insurance Groups (Comframe) which has as its objective making “group-wide supervision more effective and more reflective of actual business practices.”

In 2010 the IAA established the Convergence of Actuarial Standards Task Force (CTF). The recommendations of the CTF which were adopted by Council at the meeting which Mr. Braümüller addressed were briefly:

- The IAA Council should adopt an amendment to its Strategic Plan so that the Vision and Mission Statement are supported by a Strategic Objective, “... to achieve convergence of actuarial standards ... with the degree of convergence, and the timescale for achieving it, to be determined by Council plan time to time ...”

- The IAA should adopt a principles-based, model standards approach which will allow the flexibility needed for implementation.
- The creation of a standards board or committee, either within the IAA structure or as a separate body. In addition, the IAA should make its structure and due process of developing model standards more efficient and transparent and incorporate the participation of other interested parties.

The Council minutes reflect that there was overwhelming support for what the CTF had termed a “medium convergence” and which was defined as

“All actuarial associations (and standard-setters) should have local standards which cover the same essential scope and content as the international model standard. The standard-setter in each jurisdiction would either adopt an international model standard (modified as necessary) or make any necessary modifications to their own existing standards.”

It was agreed that compliance would be voluntary and not mandatory.

The IAA has subsequently taken a number of actions to implement these decisions and I would like to comment briefly on 3 of these:

#### The Due Process Task Force (DPTF)

The DPTF was established to review the Due Process that had existed for the creation of practice notes and has made certain recommendations, the most important being:

- The strategic direction in relation to ISAP’s should be set by Council and the decision whether to approve a Statement of Intent (SOI) and whether to proceed with the development of an ISAP by the Executive Committee.
- There should be strong encouragement, and a workable system, to allow member associations to actively participate and commit to the development of every ISAP at each stage.

#### The Permanent Structure Task Force (PSTF)

The PSTF’s role was to review the ideas in the report of the CTF, to seek the views from other organizations such as the IAIS and IASB, as considered helpful and make recommendations to Council.

A progress report was submitted to Council at its October 2011 meeting with a further report being discussed on 26 May 2012. Input was sought from external organizations and a survey was done amongst member associations. There will be an update on this later.

#### The Interim Actuarial Standards Subcommittee (IASSC)

An interim structure was established reporting to the Executive Committee and has tackled its tasks with great enthusiasm. Progress to date can be summarized as follows:

- An Exposure Draft of the first ISAP – on General Actuarial Practice - was published and 27 sets of comments were received. More on this later.
- Two Exposure Drafts in respect of actuarial work done in conjunction with IFRS reporting, one for life insurance and one for pensions are, being prepared.
- A Statement of Intent for the actuarial work associated with Social Security programs was approved by the Executive Committee and ratified by Council in October 2011. A first Exposure Draft is being prepared.
- A decision has now been made on the need for an ISAP on Enterprise Risk Management (ERM), an area in which actuaries are increasingly becoming involved. The decision is to develop an IAN on ERM for now. An IAN is defined as “an educational document on an actuarial subject that has been adopted by the IAA in order to advance the understanding of the subject.” The Due Process for IAN’s is not as onerous as for ISAPs.

What are the issues that have arisen in the IAA’s road towards developing and introducing ISAP’s? While there have been some lesser items, the most significant challenge has been getting consensus and buy-in from members. And this is not surprising. The members of the IAA represent a very divergent and heterogeneous cross-section of associations – particularly in the area of standards of practice. As mentioned earlier many of our ‘more mature’ members already have very sophisticated standard setting structures, which have over the years put a comprehensive suite of standards in place – many of the newer, more recently established and admitted members may have no or at best, very rudimentary standards in place. Furthermore, there is a great difference internationally in the oversight and application of standards. In the UK for example, there is an independent, autonomous body, the Financial Reporting Council (FRC) which performs this function through a ‘subsidiary’, the Board for Actuarial Standards (BAS), while in other jurisdictions the oversight is exercised through a structure within the profession with very little non-actuarial involvement.

The matters on which there has been / still is debate and discussion in an attempt to achieve consensus are:

- extent to which standards should apply;
- oversight structure;
- areas where standards are required.

There are also other outstanding matters such as the cost of an oversight function and how this will be funded. The debate on these matters will clearly be influenced by the decisions taken on the 3 items above.

As mentioned earlier, the IAA Council took the decision that for the present ‘medium convergence’ would be pursued and that compliance would be voluntary and not mandatory. In time, as members become comfortable with international standards, and

there is possibly greater external pressure for more significant convergence and acceptance, one can foresee a situation where members will be more inclined to move beyond a situation of 'voluntary, medium convergence.'

Equally, there are very divergent views on the role of an oversight structure and the extent of non-actuarial representation in such a structure. While certain members may, for example be comfortable having independent, non-actuarial involvement, others feel distinctly uncomfortable with the idea.

As regards the areas which require standards, it has been decided that a strategic plan be developed setting out the direction the standards setting process should follow. I am sure this will have the result of bringing about greater consensus and clarity on this matter.

We've also been targeting supranational organizations. Particular attention during 2010 was placed on Supranational Outreach and Actuarial Standards.

Our Institutional and Observer members include these organizations. Much work has been done with the IASB on the Exposure Draft of IFRS4, the insurance contracts standard, and with the IAIS on solvency and systemic risk issues.

The influence of these bodies on local financial reporting and solvency requirements is considerable.

We have also held meetings with the IMF and Geneva Association and presented to the OECD on insurance topics, held meetings with the World Bank on pensions in developing countries, attended meetings of the IOPS and OECD on private pensions, and arranged a Discussion Forum in Geneva with the ILO, ISSA and Aga Khan Foundation on social security and micro-insurance topics. In addition we met the WTO to keep up to date with developments on the global agreement on trade in financial services.

The IAA Council and its Committees met in Nassau, Bahamas two weeks ago. A few of the items covered by Council were:

- The first ISAP developed by the IASSC which is a foundational/generic standard was approved.
- The IASSC was transformed into a permanent committee reporting to the IAA Executive Committee – Actuarial Standards Committee (ASC)
- An additional Strategic Objective was added supporting the concept of Branding. The IAA will work with the member organizations in meeting is objective.
- Rob Brown, a former professor of actuarial science at the University of Waterloo, Canada, was elected to be President-elect for 2013.
- As well as a number of other matters of business.



Looking more into the future, every four years the IAA holds an International Congress of Actuaries where actuaries from all over the world and from every area of actuarial practice join together and share knowledge. We held an extremely successful International Congress in Cape Town, South Africa, in March of 2010.

The IAA serves its members through seven Sections covering various areas of practice as well as a number of Committees, Subcommittees, Working Groups and Task Forces. The Sections put on various colloquia over the year. More information on all of these meetings can be found on the IAA website. They also produce the ASTIN Bulletin. Let's talk more about Sections and the options for individuals to get involved more generally with the IAA. A way for individuals to get involved without being part of the governance structure of the IAA is to join a section.

Speaking of supplying support, the IAA operates through the volunteers who appear at the meetings. It is largely the individuals sitting around the tables at the committee meetings who drive the decisions. Longevity is also important as the leadership positions are driven by length of service as well as contribution. In other words to be a player, you need to be there and if you want your organization to take a leadership role, you need at least a few people to be there consistently for some time.

I haven't mentioned research up to this point but I would be remiss if I didn't touch on it. Doing research in a vacuum will generally not prove as successful as doing it with a group of individuals with varied and diverse backgrounds. The environment at the IAA lends itself to such. We can gain a lot if we partner with our IAA colleagues on Research and for that matter Education. And I can't finish this part of my presentation without mentioning Education and Professionalism - CPD. The Education Syllabus was one of the first products of the IAA committees. I am very proud to have been Chair of that Committee while that syllabus was established. We established a syllabus guideline.

Have a great meeting! You may want to review the five strategic objectives or our upcoming meetings and events and I will encourage you to go out to the website, [www.actuaries.org](http://www.actuaries.org), click on the tab 'About the IAA' and then on the 'read more' and you can review those objectives. Thank you for being here and for your attention.