



## **IAIS Global Seminar, Cayman Islands**

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**Speech to the IAIS**

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**President of the IAA (2012)**

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Good morning ladies and gentlemen. It is my great pleasure to represent the International Actuarial Association (IAA) at this seminar and I thank you sincerely for the invitation. The IAIS is one of 5 Institutional members of the IAA and has indeed been so since 21 November 2000. Institutional Members are defined in our Statutes as “important institutions that especially concern themselves at the international level with matters of concern to actuaries.” There can be no doubt that the IAIS indeed does so as does another important Institutional Member, the International Organisation of Pension Supervisors (IOPS). The IAA is delighted that the relationship between itself and the IAIS will be further strengthened by the signing of a memorandum of understanding (MOU) during your Executive Committee meeting on Thursday.

I have been asked to speak on what the IAA is doing regarding the development of actuarial standards, which I will gladly do. I do however believe that it will make sense to first share a couple of thoughts on the IAA to provide some context.

The IAA was established in 1895 as a global association of individual actuaries. It provided a forum for actuaries to interact and communicate with fellow actuaries from around the world. It was only 103 years later in 1998 that the IAA was transformed into what currently is an international association of actuarial associations. Thus, while the IAA is an old association, it is still relatively young and evolving in its current form.

The IAA has 64 so called Full Member Associations (FMA’s), the latest additions being Bosnia and Herzegovina, and 28 Associate Members, the most recent admissions being two African associations, Namibia and Uganda. In addition we have 5 Institutional Members of which, as mentioned, the IAIS is one, and an Observer Member being the Asian Development Bank.

I believe it is important to touch briefly on the accreditation ‘criteria’ for memberships 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 fulfil his/her professional responsibility to any client or employer;
  - an actuary shall act in such a manner that fulfils 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.

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.

Touching very briefly on the activities in which the IAA and its structures are involved, it is important to note that these are conducted within our strategic framework. These activities largely take place in the committees, sub-committees, task forces and working groups that exist within the IAA structures. In addition there are seven sections to which individual members belong and which largely focus on promoting the role of the actuary in specific practice areas, on research in the practice areas and providing opportunities for individuals to participate in research and continuing professional development.

The strategic framework in support of our Mission Statement “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 our changing needs” is defined by five strategic objectives (SO’s) with their subsidiary priorities/action plans. These objectives were confirmed by a survey undertaken during 2011 by the Strategic Planning Subcommittee. In addition there was a strong feeling amongst our members that the brand of the profession should receive greater and more focussed attention. This is being attended to at present. The five SO’s 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 Relationships Subcommittee is extremely active and in 2011 the focus was primarily on the 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, organisation 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 programmes 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 association, 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."

A very good example of such a regional group is the Groupe Consultatif which is an association of 34 European actuarial associations currently working closely with the European regulator on the development of Solvency II.

Turning now to the topic of standards, may I commence with a quote from a speech by someone very familiar to you made at the October 2010 IAA Council meeting in Vienna. I quote Peter Braumuller, "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 Braumuller 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)

The IAA involved itself in drafting and implementing practice notes (unfortunately termed "International Actuarial Standards of Practice (IASP's) level 4") in 2004. 12 such IASP's 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;
  - provide the G-20 with an analysis of the development of financial policy and regulation to facilitate economic stability in the world's capital markets;
  - focus 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 Braumuller 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 is to review the ideas in the report of the CTF, to seek the views from other organisations 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. Input was sought from external organisations and a survey was done amongst member associations.

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

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

- An Exposure Draft of the first ISAP – on General Actuarial Practice - was published and 27 sets of comments were received. These are currently being considered.
- 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 programmes was approved by the Executive Committee and ratified by Council in October 2011. A first Exposure Draft is being prepared.

- A decision has yet to be taken on the need for an ISAP on Enterprise Risk Management (ERM), an area in which actuaries are increasingly becoming involved. We do have the ability to also issue guidance notes in the form of International Actuarial Notes (IAN's). 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. The decision to be taken is whether we need an ISAP or an IAN on ERM.

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.

A couple of comments on each of these matters.

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. While this may sound like a somewhat poor compromise which does not achieve a great deal it is, I believe, a significant step in the right direction. 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. I believe this can, to a significant extent, be explained by the 'current realities' in the different jurisdictions. As mentioned earlier there is a great difference in the oversight of the development and application of standards. 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.

The latest development has been that our Council took the decision on 26 May to reconstitute the Interim Committee as a permanent Actuarial Standards Committee (ASC). The Executive Committee has decided to place a decision on a separate oversight body – possibly with representation by outside bodies – on hold until the ASC has been bedded down and is operating effectively.

Ladies and gentlemen, I hope I have been able to give you some understanding of what the IAA is all about – what we are and what we are setting out to achieve, and perhaps more importantly, what we are doing in the area of setting international standards of actuarial practice, something which by definition must be of interest and importance to the IAIS. It is very clear that there are many areas in which our associations have a shared, common interest and that our futures and destinies are in many ways linked. This makes the Memorandum of Understanding that will be signed on Thursday a very significant and important event for both of us.

I thank you all again for your kind invitation to represent the IAA at your seminar and wish to express my personal appreciation for the gracious hospitality I have experienced.