

IAA PAPER
THE ROLE OF THE ACTUARY
WITH RESPECT TO POTENTIAL IASC INSURANCE STANDARDS

The proposals for determination of fair values of insurance contracts will require the application of sophisticated mathematical, statistical and modeling techniques. The education and training of the actuarial profession (not to mention its traditional activity and expertise in the analysis of risks associated with insurance obligations) places it in a strong position to assume the responsibilities that the valuation task will entail. There may be clusters of individuals, possessing skills similar to those of actuaries, who could perform the calculations required. Nevertheless, a number of aspects of the work lead one to consider the actuarial profession as the primary purveyor of these services.

The determination of fair values of insurance contracts will necessarily incorporate judgement and estimation, but at the same time requires transparency, comparability, and consistency. To achieve these somewhat disparate goals, the work must be done by a specialist with a very high level of experience and knowledge within the constraint of professional standards of practice, standards which the actuarial profession can provide. Indeed the International Actuarial Association (IAA) has already taken steps in the process of developing such standards.

Once developed, it must be admitted that other highly skilled individuals could apply such standards. However, without an organized profession imposing a code of conduct and backing it up with an effective discipline process, the extent to which the user of the work can be assured that the standards have been followed is questionable.

The actuarial profession has recently organized itself globally under the banner of the IAA. The IAA currently has 43 Full Member associations, representing more than 95% of the world's qualified actuaries. To be accredited as a Full Member, an actuarial association must have adopted a code of professional conduct that is at least as stringent as that of the Groupe Consultatif des Associations d'Actuaires des Pays des Communautés Européennes and must have in place a discipline process that meets certain criteria. As well, the IAA has developed a minimum educational syllabus that is expected to be in place for newly qualifying actuaries in 2005. Of particular relevance is the recognition among IAA member associations that regular continuing education is of significant importance to providing competent professional services.

For the past decade in Canada an arrangement (known as the Joint Policy Statement) has been in place, wherein the Canadian Institute of Actuaries and the Canadian Institute of Chartered Accountants have documented a process of formal communication between actuaries and auditors. Under this arrangement, members of the one profession may use the work of members of the other. Similar arrangements have been established between the two professions in certain other countries (such as Australia, the United Kingdom, and the Netherlands). We understand that the organization responsible for international auditing standards is the International Federation of Accountants (IFAC). The actuarial profession, through the IAA, is prepared to discuss with IFAC the possibility of establishing a similar process in connection with auditing practices under the proposed international accounting standards for insurance contracts. We note that such an arrangement would fall naturally under the umbrella of IFAC's ISA 620: *Using the Work*

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of an Expert. In particular, we see paragraph 11, *Scope of the Expert's Work*, of ISA 620 as seeming to set the scene for such a mutual arrangement.

As noted above, the IAA also intends to develop professional standards of practice for actuaries to be applied under the IASC standards in their valuation of liabilities of insurance contracts, whether or not determined on the basis of fair values. In either case, we are prepared to work cooperatively with the IASC to ensure that the resulting standards are appropriate.

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