

Report of the Secretary General to the Council Meeting Paris, France – May 2006

Secretariat

As indicated in Rio, in addition to Nicole Séguin, our Executive Director, in charge of the Miracle Department, the IAA benefits on a full time basis from the services of three Managers:

Christian Levac, IT and Member Services.
Katy Martin, Technical Projects
Céleste Leclerc, Membership and Development

As needed, we use the services of other CIA staff, in particular those of Rosemary Leu, the Director of Finance. We are not going to lose Rosemary, whose services are and remain as precious as ever, but the sharing of the tasks will be modified. The workload in accounting and reporting has been increasing both for the IAA and the CIA; additional staff is needed and has been strongly recommended by the auditor during his last visit in March. The IAA was already using a good part of the time of one of the accounting assistants; we will now hire a full time person that will be dedicated to these tasks and who will also provide general support to both Nicole and Christian whose work load keeps increasing.

Paris 2006

Christian is responsible for the IT and the support to the Sections, but since November he has spent a considerable amount of time in support of the work of the Bursary Task Force of the Member Services Committee. We have granted over 65 Bursaries, most of which comprise three components: the registration fee paid directly to the Paris Congress Committee, the airfare transferred to the recipient, often in remote locations, and the allocation for accommodation that we used as a deposit on room reservations in Paris. But to get to this result we had to process 120 applications and as you may guess, there were also some special cases. The applications were compiled electronically, analyzed and transmitted to the members of the MSC Task Force who were responsible for the decisions taken.

We benefited from the application forms developed for the Cancun Congress, but it was a learning process in Ottawa, as it had been for Cancun and other previous Congresses. However, this time there was also capacity building in that the tools, the processes and the knowledge are institutionalized and will be re-used for Cape Town in 2010 and future congresses. This is part of a strategy to lessen the burden on host organizations and make better use of our resources by avoiding re-inventing the wheel, or a better mouse trap, every four years. Bursaries are not the only process that deserves our attention. Through the MSC, I have made the commitment to build a better institutional memory of the various issues, processes and precedents that would simplify the research that each new Congress committee has to restart. And by knowing better what has been done, it should be easier to identify what can be improved so that each successive Congress is a notch more productive.

In addition to managing the attribution of the Bursaries, the Secretariat provided support for the marketing of the Congress and for the sessions jointly organized by the IAA Sections and Committees.

The International Education Program (IEP)

Another significant activity since the appointment last November of a Task Force on the Feasibility of a Global Actuarial Qualification has been the support to the discussions and the preparation of the Report which is attached to the agenda of this meeting. A meeting organised in London, UK, on February 24th and 25th was attended by almost all members of the Task Force, myself included, plus Nicole Séguin and Céleste Leclerc; costs were minimal thanks to the support of the Institute and the GAD. A new list-server was created for that purpose and a teleconference arranged on April 18th in preparation of the revisions for the 30-day agenda.

Subsequent to the London meeting, we started to research information as to the cost of running similar systems in order to generate some benchmarks for the various components: design of the syllabus, study material, delivery of education, preparation of exams, and administration of exams. We are grateful to the various organisations that have supplied very useful data, in particular the UK Institute, the Institute of Actuaries of Australia, the Casualty Actuarial Society (CAS) and the Society of Actuaries. Some governance structure has been added to the Report for the 30-day agenda, but we were also concerned about the logistical requirements for the initial build-up period, the plateau to be reached during the five-year funding period, the on-going operations and the exit strategy. We have enquired as to the impact on our insurance coverage and potential fiscal issues, including those associated with hiring personnel out-of-Canada. It is too early to discuss the potential impact on our cash flows. A very practical aspect is the space needed to accommodate the new operations. Office space is not like sugar that you can buy by the kilo as you need it on a weekly basis. This program would require temporary staff and therefore additional space, at least for a transitional period when the programme has to be developed and implemented. Fortunately, the CIA lease will end in five years' time, and there is space available in our building. Any modification to the current lease could be co-terminal, thus co-terminal as well with the external funding that is expected to be for an initial period of five years. An exit strategy will need to take into account the associated costs, both for the space and the personnel. The issue is linked to our current need for space.

Managing growth

In parallel with the CIA, we are also experiencing growing pains. While adding personnel one by one, we have been squeezing more people in the same space. At some point it becomes impossible, short of building a mezzanine! We have reached the point where both the IAA and the CIA need more space. Good news, bad news: there is space in the building, but not on the same floor. At this time, the game plan is that the IAA would as a group move to a new space freeing needed space for the CIA. Even though on a different floor, the telecommunication and IT systems will remain integrated, but Nicole and Rosemary may have to meet in the elevator for the monthly reviews.

The space and staff allocation formulas between the IAA and the CIA have not been updated since the time we both moved to the present location, a little over three years ago. Lets say that we have benefited from a good deal, but as we move to our new location later this year, we will have to meet the real costs, including operation expenses that increase annually. For 2006, the impact will be fractional, but the provision we made last year will likely prove insufficient.. For 2007, we have increased the provision by \$10,000 CAD, which is an estimate since we have not settled for the space nor negotiated the rate. As noted above, a more dominant consideration is the prospect of a partnership with the WB to develop an International Education Program. As we return to Ottawa after the Congress, we will need to do some short term planning. I do hope our meeting will bring clarity to our needs.

Representations

Since November, I had the privilege to attend the 10th Regional Pension & Social Insurance Conference in Bahrain on behalf of the IAA. I represented President Jean Louis Massé at the Opening Ceremony and made presentations on pensions and health subjects. The actuarial profession appears to be well recognized in the area and I hope my participation contributed to enhance the credibility of the profession. It is worth mentioning that the Conference was organized by the Chair of our MSC, Ibrahim Muhanna, who donated part of the profits to the IAA Bursary Fund for the Paris Congress.

Publications

You will find in your kit of documents for the Congress our new Section brochure, in English and French, which will continue to be used as marketing material for our seven sections. It meets a need identified some time ago and we are grateful to the CAS for their help in the design.

Our 2004 publication *A Global Framework for Insurer Solvency Assessment* is out of stock. We will seek expressions of interest at this Congress to assess the market for a second printing that will keep us going until 2008, the timeframe currently envisaged by the Committee for revisions that would lead to the publication of a second edition.

Public Statements and Standards

I can report that the old procedure for making Public statements is still in working order and was used to approve our comments to the World Bank on *Old-Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform*. The closing date for the vote was May 9th. I am pleased to report that the statement was approved by almost 92% of the votes casts with 8% abstentions, and no opposition. What is less satisfactory is that the participation was only 63 out of the possible 123 voting rights, just a shade above 50%, so that in fact the votes expressing approval were less than 50%, despite the fact it was exposed from February 23rd to May 9th.

Member associations will have another kick at the can with the Statement on issues surrounding IAS 19 (Employee Benefits—Actuarial Gains and Losses, Group Plans and Disclosures). I hope we can do better.

On the fast track procedure (FTP) front, there were only three in process during the period, with two still outstanding. A few more are under consideration. There is a motion on the agenda of this meeting to simplify the administrative process for FTPs, but no change has been made to the basic process itself.

There was more activity in the area of standards. A third set of Preliminary Exposure Drafts for Potential IAA Standards regarding International Financial Reporting Standards has been released and comments were requested by March 30th on:

- Embedded Derivatives and Derivatives (31 pages)
- Business Combinations (15 pages)
- Accounting for Reinsurance Contracts (36 pages)
- Disclosure of Information about Insurance Risk (41 pages)

Annual fees and preliminary budget for 2007

There is a motion on the agenda of this meeting to approve the dues applicable to the year 2007 at CAD\$13.50, representing a \$1 increase. The budget for 2007 will be submitted for approval in Edinburgh next November, but preliminary estimates have been published on the web site illustrating our projections on the basis of the information available at this time.

Revenues are expected to increase by 8,6% or a bit less than C\$73,000, while projected expenses will increase by 8,8% or C\$74,000 which reduces the projected surplus to C\$4,200 or 76% of the one budgeted for 2006. The main changes are in support staff at C\$25,000 or 11,4 %, reflecting annual increases and the addition of staff; Committee support and Expenses C\$20,000, statutory meetings at C\$ 15,000 and rent at C\$10,000, that is C\$70,000 in aggregate, the remainder of C\$4,000 being distributed over a number of items including a decrease of C\$3,000 in Web site development.

As we look back to the restructure, we can see that the membership, revenues and expenses have evolved as follows.

From 1999 to 2006, the number of Full member associations increased by 28%, from 43 to 55 while the FQA count went from 41,857 to 54,081, an increase of 29% or also 4% compounded annually. Thus we did not benefit from any increase in the average number of members per association, which would have had a favorable impact. The number of FQA per new member association has been lower, but more associations, combined with increased activities, meant a faster increase in the attendance at our meetings, which is driving up our meeting costs. We had three meetings in the first fiscal period, but if we take the higher two to remain on a comparative basis, the attendance went from 184 to 348 for 2005, an increase of 89% or 11% compounded annually. If we factor in the Paris meeting, it would likely be a bit higher. This is 2.75 times the increase in the contribution base.

It does not come as a surprise that the cost of our meetings increased by 13,40% compounded annually from C\$82,928 in 1999 to C\$200,000 in our 2006 budget as it includes the impact of the airfare increases. The cost of running the Secretariat went from C\$103,235 to C\$220,000 in our 2006 budget, an increase of 11,41% compounded annually; the IAA benefits from economies of scale by sharing space and support services with the CIA. Internet, insurance and other core costs have increased from C\$63,219 to C\$118,500 or 9,39% compounded annually

If we look at our dues and our expenses, we find that the dues went from C\$6 in 1999 to C\$12.50 in 2006, an increase of 108% or 11,05% compounded annually. Expenses went from C\$249,382 to C\$742,500, an increase of 198% or 16,87% compounded annually as it incorporates the increase in the membership. If we average the increase in the cost of the Secretariat, of the statutory meetings, and Internet, we have an increase of 11,62% per year for the core activities. There is therefore a difference of 4,4% per year that is explained by the addition of 5,2% which is explained by new or increased activities in representations, committee support and committee expenses which amount to C\$204,000 in 2006, whereas none were recorded in 1999. We have excluded from the comparison the revenues and expenses coming under Articles 33 and 34, which are not supported by the dues. Although the C\$100,000 inherited from the former IAA did offset some expenses in the early years allowing the dues to remain flat until 2002. We could not eliminate the distortion caused by the fact that there were some representation expenses in 1999 even though not recorded separately, which would increase marginally the rate of growth of core activities by reducing the base.

The increased spending on representations is the result of strategic decisions about the need to increase the outreach of the global profession. The larger amount of expenses for new activities is in support of committees. In addition to the Council, we now serve 25 committees and task forces, almost twice the 13 committees served in 1999. But more importantly, the level of activity has increased significantly, in particular with the reform of international accounting and reporting standards which led to the preparation of an increasing number of public statements and to the development of practice guidelines. Fortunately, the introduction of the FTP has reduced the increase on the burden on the Secretariat. We are taking another small step with changes proposed to this meeting. All these activities have been undertaken at the request of member associations and approved by the Council.

The Committees have repeatedly expressed the need for paid actuarial help which would require a significant increase in dues. The cost saving solution has been to provide administrative support to the enormous contribution of our volunteers, plus some allocation for out-of-pocket expenses. This seems to be adequate for the time being, and after catching up in 2005 and 2006, in the absence of new strategic changes, a slower pace of increase is anticipated for 2007 and future years.

Yves Guérard