

International Pensions Forum

Taipei, 30 -31 May 2005

Notes for Opening Speech by Yves Guérard, Secretary General, International Actuarial Association

Chairperson Pauline Fu,
Chairman Prof. David Jou,
President Kenneth Shih,
Honored guests and dear colleagues,

I feel privileged to be here to-day as Secretary General of the International Actuarial Association to launch this International Pensions Forum convened by our IAA Fund. This Seminar is an excellent initiative of the Fund which has been particularly active in this region. Our most recent activity in the Asia Pacific region goes back to September 2004 when we sponsored the International Actuarial Forum in Xi'an but I should also mention the 4th Congress of Chinese Actuaries in Chengdu which I attended personally in September 2003 and the First International Actuarial Forum in Xiamen, in April 2002. We organized an IAA Fund Meeting in Manila, in October 2003 and we have already programmed another IAA Fund meeting in Indonesia in September just after the 13th EAAC.

The IAA was born in Brussels in 1895 under the name « Comité Permanent des Congrès d'Actuaires » as an association of individual actuaries having as a prime objective the organization of International Congresses of Actuaries.

Despite a change of name back in 1968, Congresses have remained an important activity for the global profession and the 28th ICA will open in Paris on May 28th 2006, just 364 days from now. But the aims of the IAA have become more diversified and more ambitious. To respond to the accelerating evolution of the global socio-economic environment, the IAA was restructured in 1998 to become an association of actuarial associations and serve as a bond between actuaries and the associations of actuaries through the world. The IAA is the international professional, educational and research organization of actuaries and actuarial associations.

The IAA is governed by a Council to which each Full member association appoints a delegate holding a number of votes that can vary from 1 to 4 depending on the size of its membership. There are 50 voting members plus 24 Associate members that do not yet meet the full membership requirements and consequently have no vote. We are currently promoting the development of local associations or the upgrading of those that are not yet Full members in nearly 40 additional countries, some of which are in this region. Indeed, the primary reason for restructuring the IAA in 1998, after more than a century of proud history, was to support actuaries in their efforts to establish and maintain uniformly high standards of conduct, practice and qualification and to encourage high levels of professionalism for actuaries around the globe to ensure that the public interest is served. Much of this support is channeled through the IAA Fund, financed by voluntary contributions, mostly from member associations.

Actuaries are first members of local associations in different countries, but those who are designated fully qualified actuaries of their Full member association are also automatically members of the International Association of Actuaries. Many of you here are members of the IAA but did not realize

that because there are no individual dues and it is the local associations that pay an aggregate membership fee.. Virtually all fully qualified actuaries around the world belong to the IAA so that the IAA 50 full member associations comprise over 38 000 qualified actuaries distributed in 92 countries, to whom should be added a significant number of actuaries in Associate member associations. Some countries feature more than one association while some associations have members in more than one country, which explains the discrepancy. There are 3 Institutional members of the IAA: the International Association of Insurance Supervisors, the International Social Security Association, and the International Accounting Standards Board. The IAA has recently welcomed the World Bank as its first Observer member, a category of membership created last year. The IAA is a non-profit-making and non-political Non-Governmental Organisation that is on the Roster of the Economic and Social Council of the United Nations Organisation (UNO) and on the Special List of the International Labour Office (ILO).

Actuaries provide professional services in a wide range of business and social contexts. The institutional brochure of the IAA describes the actuaries as multi-skilled strategic thinkers, trained in the theory and application of mathematics, statistics, economics, probability and finance and states that for more than 150 years, actuaries have brought their expertise to the management of risks associated with the life and non-life insurance areas and with retirement and benefits plans.

Demographic changes induced by reduced mortality and fertility that result in a rapidly aging society pose new challenges in the area of health and retirement. You will have read or heard about “Averting the Old Age Crisis” published by the World Bank in 1994; today you will be hearing about the

new paradigm based on further research and experience of the Bank in many countries. I am personally pleased by the decreased emphasis on the development of contractual savings objectives and the greater emphasis on providing the ultimate beneficiaries with sustainable financial security in retirement through more diversified layers hence favoring a more robust, less risky system. We are all living in a more risky society where, from Chernobyl to tsunamis, natural catastrophes and man-made disasters seem to be on the rise. But in a less dramatic way, we are facing a greater variety of ordinary risks associated with the new technologies and bio-technologies, new materials, new food and new living styles. The IT revolution has exponentially transformed not only the financial world, but the way we operate trading networks and distribute goods and services. Our more sophisticated world is efficient and productive, but it has also become more complex and vulnerable to a wide variety of new risks.

In the particular area of retirement pensions and social security benefits, actuaries bring their skills in statistics, mathematical analysis, probabilities and finance to assist employers and governments in providing financial security for a growing aged population. Actuaries make recommendations on the adequacy of funding levels for pension plans and provide statutory certifications to support pension and benefit plan legislation in countries around the world. But a more strategic contribution is to help balance the objectives of fairness, adequacy and equity of benefits with affordability, sustainability and robustness for the system as a whole. Within agreed constraints, actuaries will present decision makers with a range of options for optimizing financing paths for the benefit of all stakeholders, the civil society, the governments and the individuals, all of whom value reliable financial security in retirement.

I wish that this Conference be a profitable opportunity for exchange of information and ideas about pension reform and public policy issues in social security and retirement benefits. On behalf of our President Alf Guldberg who asked me to convey his best wishes to you, I offer my congratulations and sincere thanks to all those whose efforts made this initiative possible, to all the volunteers from the IAA Committee and from the local associations, to the speakers and to all of you who have accepted the invitation extended by the IAA Fund Executive Director, Chris Daykin, to meet in this beautiful city and respond in a timely manner to challenges of strategic importance both nationally and internationally.

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Notes for Yves Guérard, Secretary General, At the Dinner hosted by the International Actuarial Association

Honoured guests and dear colleagues,

We are already halfway through this Seminar and I hope it exceeds your expectations. Let's break away a short moment from pension issues and allow me to brief you about key IAA activities on behalf of the global actuarial profession.

The 1998 restructure was very timely and has enabled the profession to face acceleration in the demand for professionalism, high standards and qualifications, expert advice to relevant international entities and service to the public interest. A clear demonstration has been the acceleration of the level of activities which I can illustrate by the growth of our annual budgets that more than doubled from C\$256,483 in 1998, to C\$ 604,171 in 2005 an annual compound rate of 13% over 7 years, most of the growth being supported by an increase in the fee from C\$6 to C\$10, that is 167%. The budget estimate for 2006 is C\$748,030, a year to year increase of over 25% supported by a proposed fee increase to C\$12.50! This is exclusive of amounts spent for the IAA Fund or Congress bursaries which are supported by voluntary donations. The acceleration is obvious and is reflected in a much higher level of committee activities.. About 50% of the 2004 expenses went to meetings, committees, professional and outreach activities and this percentage is expected to rise to nearly 60% in 2005 and 2006. The basic

administrative expenses remain low thanks to the 1998 switch to e-services and the sharing of facilities with the Canadian Institute of Actuaries. Maybe because of their small numbers, the actuaries have been motivated to pool efficiently their resources and are truly organized on a global basis in a way that makes the actuarial profession rather unique. A look at our web site www.actuaries.org will be persuasive.

In addition to 22 Committees and Sub-Committees, the IAA serves its members through six scientific Sections covering various professional sectors. There were two Sections and one Committee in 1998. I will focus on three main streams of activities: education, public statements and standards.

Education is a strategic activity for the credibility of the profession and 2005 is a threshold year for the implementation of the new syllabus. Both the Education and the Accreditation committees are spending a large amount of volunteer efforts on monitoring and helping associations demonstrate compliance. Discussions are ongoing with international donors that could result in major new funding initiatives to support professional training, education and examinations in less actuarially developed countries.

In the last 12 months we have dealt with over 30 requests for comments mainly to the IAIS, IASB and OECD, some of which required issuing an IAA Public statement. To cope with tight delays we have adopted a Fast Track Procedure which has been authorized for 17 of the 20 Public statements issued or in process since July 2004. Some of you are likely aware of the deep revisions taking place in financial reporting and in the determination of liabilities and solvency requirements. A recent example is the Public statement we posted on our web site on May 4th containing the IAA comments prepared by the Insurance Accounting Committee on

the IAIS Comments regarding issues arising as a result of the IASB's Insurance Contracts Project - Phase II. The IASB-FASB issue of convergence is also addressed by that Committee. I quote just a few sentences from this statement:

“Finally, the IAA believes that it is essential that a single international prudential financial reporting model be developed that meets the characteristics outlined above. The IAA is willing to provide whatever assistance it can to both the IAIS and the IASB to derive a regulatory model based on, but not identical to, future IFRS developed by the IASB. The IAA has long advocated that the merits from such a combination of general purpose international financial reporting based on IFRS, together with international regulatory reporting itself based on a soundly constructed IFRS core would be of immense benefit both to insurers and to the financial markets as a whole.

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Regardless of whether or not a common financial reporting platform is developed, the IAA reiterates the need for comprehensive reconciliation and explanation of any differences between general purpose and statutory financial reporting.”

In parallel, in support of practicing actuaries, the Actuarial Standards Sub-Committee has prepared the final version of 8 IAA Practice Guidelines regarding International Financial Reporting Standards that, subject to the recommendation of the Committee on Insurance Accounting and of the Committee on Professionalism, the Council should adopt next month in Rome as official IAA Guidelines. These have been circulated for a 4-month exposure period already.

Actuaries take seriously their responsibility to the public and recognize that their unique blend of skills can be enormously beneficial when applied to the general public good. Through their national associations, actuaries provide voluntary assistance to national and regional governments, analyzing legislative and regulatory proposals, advising on social trends and suggesting solutions to a wide range of social problems. Through the International Actuarial Association, actuaries are offering support to international regulatory, financial, accounting and public assistance organizations. Our Solvency Assessment Working Party has produced in 2004 a 185-page Research Report entitled “A Global Framework for Insurer Solvency Assessment” that is a seminal contribution to an actuarial area that is critical for the stability of the whole financial services industry. It represents an important contribution to the effort of better defining the distinction and the relationship between the liabilities which should cover somewhat more than the 50% percentile and the additional solvency margins that should cover the upper tail risks up to a still debated degree of probability of sufficiency.

I would like to share with you an enlightening exchange drawn from a recent e-mail: *“the uncertainty of the uncertainty is typically greater than the uncertainty of the estimate”*. That was in an insurance context, but regarding the area of pension, there was a very relevant observation that the uncertainty of the value of an annuity sold on the life of very young annuitants, for structured settlements, is much more dependent on future interest rates than on mortality projections. Margins for mortality improvement do not exhibit *a large uncertainty of the uncertainty* since in a 5% economic environment the limiting value of the annuity is a perpetuity valued at 20!

On these more comforting thoughts, I see a great certainty that you will all enjoy a relaxing evening!