



Interpretation Document for the Principle of Subsidiarity

The term subsidiarity was introduced in 1995 when the IAA created a Section called the International Forum of Actuarial Associations (IFAA). This Section regrouped actuarial associations from around the world and agreement with the principle of subsidiarity was critical to its formation. Without its embrace by the founding organizations, it is doubtful that the IFAA would have been formed. When the IAA restructured in 1998, the IFAA was dissolved and the IAA assumed its governance, including the principle of subsidiarity. This principle has been used in many different ways over the last two decades.

Although most active participants in the IAA meetings think they have an understanding of the term, a clear definition has not been established. There have been instances when the interpretation of the subsidiarity principle has been brought into question. While Article 8 provides some definition of the principle, it would seem helpful to clarify the intent of the principle of subsidiarity. As the IAA develops its strategic plan, it is important to have an understanding of the boundaries within which it should operate. By the same token, it is important that some individuals or member associations not misuse the principle.

1. Principle of Subsidiarity

Full Member Associations (FMAs) join on the basis of the following subsidiarity provisions found in section III of our Statutes:

Article 8 Co-operation

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 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.

If there were no such provisions, it is likely that many associations (and members of regional groups, such as the Groupe Consultatif) would have concerns about joining. The subsidiarity provisions are therefore an important part of the IAA's constitution.

The subsidiarity provisions do not prevent member associations from cooperating with one another on an international basis. For example, the CERA Treaty illustrates that the collaboration of a subset of FMAs in a project may be a successful means to achieving the Vision of the IAA, without being

directed by the IAA. Similarly, within the Standard Setters Roundtable, there have been discussions about the Standard Setting bodies potentially agreeing to work towards global actuarial standards, if sufficient progress is not made towards this in the IAA. Furthermore, the ultimate goal of “medium convergence” for International Standards of Actuarial Practice (ISAPs), which means that model ISAPs should be developed for FMAs to adopt, adapt or confirm congruence with, on a voluntary basis over the foreseeable future, does not infringe on the principle of subsidiarity. Use of the term ‘voluntary’ was clearly not one of accident.

2. Membership Criteria

In applying for admission as a FMA of the IAA, an association must agree to meet the membership criteria established by the IAA. It should be noted that the second key element of the constitution is the requirement to meet membership criteria. FMAs accept these as a condition of membership. It should be noted further that the constitution does envisage that the membership criteria could change over time by an 80% majority vote, as Article 13 describes: *Matters relating to defining and amending membership criteria for FMAs shall require an affirmative vote of at least four-fifths of the voting rights cast by Delegates of FMAs.*

3. Testing for compliance with the Subsidiarity Principle

Whether an activity offends subsidiarity can be tested by asking the following questions:

1. Is this something that requires international coordination or direction?
2. Is this something that is handled more efficiently across national and regional boundaries?
3. Is this a duplication or does it overlap with the activities of member associations?

If the answers are Yes, Yes and No, the activity does not offend the principle of subsidiarity.

4. Concerns about subsidiarity

During the discussions regarding the creation of model ISAPs, the issue of subsidiarity was raised. Specifically, some argued that international actuarial standards be made mandatory while others argued that such would offend the subsidiarity principle. If one applies the test described above, the answers are Yes, Yes and Yes, so it would offend the principle of subsidiarity.

The current membership criteria of the IAA do not require FMAs to have actuarial standards of practice. However, if they do, then their process for adopting such standards must comply with the criteria set out by the IAA. If this membership criterion were to be extended to require the mandatory adoption of the model IAA ISAPs, or for that matter the mandatory adoption of having any standards, the accreditation criteria discussed above would need to be changed; this could only happen through a vote of at least 80% of the voting members.

5. Above the concept of Subsidiarity

Some have argued that, in view of the requirement of an 80% vote to make significant changes within the organization, no topic should be considered out of bounds.

Others would argue that the success of the IAA to date has been its operation as a collaborative group of associations who work through diplomacy and tact for the greater good of the actuarial profession globally and who work through consensus rather than by majority or super majority rule.

A heavy-handed approach is not in alignment with the culture of the IAA. When the IAA (IFAA) was first formed, certain basic principles were envisaged by the founders. Subsequent associations joining the IAA have joined on the basis of the membership criteria in place when they joined.

For the IAA to succeed in the future, it is important that a majority of 80% or more not disadvantage the remaining 20% or less. Therefore, it is important to understand and establish that, while a vote of 80% can theoretically change anything, certain basic principles are critical and damage to the organization will be done if the super majority runs over the minority.

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