Minutes
Presidents' Forum Meeting
April 17, 2007 – 9:30 a.m.
Sheraton Centro Historicó
Mexico City, Mexico

IAA President, Hillevi Mannonen, welcomed participants to the Presidents' Forum meeting. All present were invited to introduce themselves; the list of attendees is attached to these minutes.

PLENARY

1. The minutes of the Presidents' Forum meeting in Edinburgh were approved without amendment. The President thanked the volunteers who drafted the agenda for this meeting: Fred Rowley, Steve Lehmann, Colm Fagan and Norman Gendron.

2. Confirmation of the Role of the Presidents' Forum

At its last meeting, a discussion was held on IAA governance and the future direction of the Presidents' Forum. As reflected in the minutes, delegates concluded that the role of the Forum should be to share information about the developments in their member associations and to provide opportunities to share new ideas. There being general agreement with this approach, the Forum turned its attention to the first topic for discussion on the agenda, that of relationships with regulators.

3. Relationships between the Actuarial Profession, Government and Regulators

The President of the Society of Actuaries in Ireland, Colm Fagan, introduced his presentation on the relationships and division of responsibilities between the profession and others involved in regulation, government and the regulators of insurance companies and pension funds, including discussion of the independent oversight of actuarial standards.

A discussion ensued on the options explored by the Society of Actuaries in Ireland when deliberating on self-regulation and the external oversight of actuaries. The options that were entertained included:

1. The Society establishes a separate oversight body.
2. The Society establishes a separate standard-setting body.
3. Oversight/setting of standards is delegated to the UK Board of Actuarial Standards (BAS).
4. The government establishes a separate oversight body.
5. The government establishes a separate standard-setting body.
6. Standards for actuarial work are set directly by the Financial Regulator (for insurance) and by the Pensions Board (for defined benefit pension schemes).

The question was asked: which, if any, of the above-mentioned options concerning self-regulation applied in other countries?

Several participants shared their experiences with the complexities of the disciplinary procedures and professional standards in their home associations, standard setting by government, outsiders and the profession, and various combinations thereof.

In the United States, it was a separate body within the profession that set actuarial standards, but it was not independent of the profession.

Australia had a professional standards committee which included external members. The government had a standard-setting body of its own. The government set down prudential standards at a high level, establishing principles as to how things should be done, and setting the major parameters including those that were contributory to risk tolerance. Having set those standards, then the role of the professional standards was to govern how they were produced.

Because non-native English speakers could have difficulties understanding in a forum of this nature, all participants were reminded to speak more slowly and explain unfamiliar terms clearly. A moment was taken to clear up any confusion with the use of the term “oversight body”. Using the example of setting a prudent rate of interest, an oversight body was described as an external group that was tasked with examining actuarial work to determine if the processes and outcomes were reasonable. Such an external group could have representation from the business sector, accountants, economists, government, and other actuaries, for example.

One member described the cooperative relationship between actuaries and the pension regulator in Japan. There, the government supervised and set regulations for occupational pensions; pension actuaries formulate and revise actuarial standards of practice which must satisfy all government regulations. The government was consulted before actuarial standards of practice were revised and there was mutual consultation on any new developments that could impact occupational pensions.

A similar situation applied to life insurance in Japan, which operated at the level of “option 6”. The government consulted closely with actuaries to determine the best approach that was mutually satisfactory to the government and the profession.

The Norwegian President remarked that the best option might not be a question of quality, but one of the capacity of the association. Norway, as a small country with a small association, did not have the resources to formulate standards of practice, but was fortunate to have fellows of the Norwegian association in the employ of the supervisory authority. This relationship resulted in a sort of informal control. There were regular meetings with the supervisory authority, and since most of them were actuaries, the communication was very good. Norway operated more or less at the level of option 6.

In Finland there was an approval system such that the calculation bases used by companies and pension funds were reviewed by the supervisory authority.

In Mexico there were two different scenarios: the area of insurance at the level of “option 6” with the regulator setting the rules and standards, and there was very good communication with the supervisory authority. The area of pensions, especially funded pensions, was quite different. The government had set the rules for tax purposes only; and the Colegio Nacional and the AMAC had established the standards of practice.

The Forum was asked to consider whether there was any room left for professional judgment with so many associations, it seemed, operating under option 6. Under any regime, was the intention to be as comprehensive as possible in setting standards and to leave as little room as possible for professional judgment?

Using the example of the allowance for future mortality of pensioners, one delegate (UK) argued that there were cases where professional judgment still came into play. There was a general feeling that the assumptions being used were not fully consistent with either historical experience or the best estimates of what might happen from now on. It was very difficult for the profession to set a minimum standard in this area. A minimum benchmark almost had to come from the regulator because of their ability to set arbitrary standards, whereas standard-setting bodies had to justify what they were doing.

The Forum was informed that The Netherlands had established a new regulation where pension funds must adhere to certain standards – called the standard model – which were prescribed calculations. However, it was possible to deal with the regulator and set internal models. As a result, 5% of an actuary's work involved certifying and 90% involved advising, more or less. As to oversight, it had been established that the professional who did the calculations did not have to be an actuary. In practice, an actuary might or might not do the calculations, but it was the actuary who checked the work and signed it. There was an agreement with accountants, which was also agreed by the regulator, that the accountant would stop when it came to the future. Accountants were less and less willing to state anything about the future so they were happy with that stipulation. Secondly, the accountant was responsible for checking the correctness of the data before an actuary performed his calculations.

France had a mixed system. Standards were set by the government, but the Institut issued educational notes to fill in the blanks of these standards. For pensions, France had common regulations with the EU. Independent actuaries had to be members of the Institut des Actuaires and they were specially certified by the Institut to perform their work on pensions. This year the government had published new mortality tables for annuities. These tables had been created by the Institut des Actuaires in conjunction with the insurance professional federation and approved by the government. These tables formed part of the law governing annuities and had to be used by companies in the annuity business.

Germany had published a new mortality table in 2004 that was discussed with regulators and the regulator had asked companies to use it. The table took into consideration an improvement in mortality in the next few years. It was still possible, however, to construct one's own table, if you could demonstrate that your particular portfolio warranted it.

The Forum went on to briefly discuss the issue of the quality of actuarial work in the pensions field. It was difficult to deal with unofficial reports or comments from regulators on the quality of an actuary's work and hard to determine to what extent there was a real problem.

In the United States, with respect to the non-life for general insurance practice, the appointed actuary was required to state how the point estimate and/or range compared to the booked estimate and to provide documentation that supported the estimate or range. Regulators had stated that there were a minority of reports where they thought that the work done was not in compliance with the standards. The idea of reviewing a random sample of reports, as was done in Canada, was discussed along with the possibility of reviewing an actuary's work after specific trigger events (for example, deterioration in the reserves of more than a certain margin). These ideas had not been pursued to date.

Peer review had recently been introduced in Australia as a mandatory process for the general insurance sector, so all reserving was reviewed by an actuary.

There were two challenges in South Africa: one was to get the regulator to formally lay complaints, and the other was to ensure that when a complaint was laid that the disciplinary process was robust enough to deliver a timely verdict. There was a problem with confidentiality of information from the regulator's side and from the individual actuary's side. It was difficult to gather evidence due to protection by client privilege.

In the UK, the way that actuaries were required to obey the standards set by the Board for Actuarial Standards (BAS) was through the profession. To be in breach of a technical standard would be a breach of professional conduct. If it were felt that, as a profession, something was going wrong with the BAS, then it would be possible to designate that it was no longer mandatory for the membership to obey the BAS standards. Of course, very strict legislation could follow. The BAS was responsible for technical standards and the profession retained responsibility for ethnical standards. This categorization had resulted in an ongoing debate that was unresolved. Another concern was that the BAS had given priority to having a fundamental think about how it wanted to go about its work. That was creating some tension within the profession about the speed of updates of technical standards which were not happening in a timely fashion.

Colm Fagan thanked participants for relating their experiences and for their input to the discussions.

4. CPD developments in Italy and beyond

Carla Angela introduced her presentation by noting that continuing professional development (CPD) was one of the most important elements in the education of actuaries. The discussion dealt with the function of CPD, its objectives and rules. A copy of the presentation is available here.

There was wide debate in Italy on the subject of CPD. For many years, the association had offered CPD courses to its members, but participation was on a voluntary basis. As a consequence, they did not have a "points" system for each CPD event (i.e., seminars, congress). They were now working on structuring their CPD system.

At the IAA level, the Education Committee continued to address CPD, which was viewed as the necessary complement – within the framework of Long Life Learning – to the basic education required to become an actuary.

The floor was opened for discussion and questions. One participant asked if the IAA could prepare a document that summarized the experiences of its member associations with CPD. It would help some of the smaller associations with the design of their CPD programs (so as not to re-invent the wheel) and offer solutions to some of their problems in implementing CPD. The IAA President suggested that this was something that the Education Committee should consider.

For Presidents, the difficulty was in convincing members to accept CPD. Those members who were more senior may not accept that CPD was necessary, and students must study seven or eight years to achieve certification and were therefore not eager to pursue CPD. One association stressed to its membership that most professions had CPD, for example, real estate agents, and secondly that CPD would avoid a lot of regulation in the long run because actuaries would be recognized as keeping up to date.

5. Outline of a Proposal for a Global Enterprise Risk Management (ERM) designation

Fred Rowley moderated the discussion of this topic and introduced Harry Panjer to present a case for, and the advantages of, a global designation in ERM as well as the likely contents of a syllabus. A copy of his presentation is available here.

A presentation by Fred Rowley followed on how organizations could join forces to work towards developing this designation. The Institute of Actuaries in Australia, in a recent survey of its membership, had asked about the short term opportunities for actuaries (the most prominent answer was general insurance). When it came to long term opportunities, the most prominent response was risk management. Having sensed the importance of the risk management movement, the Australian association had moved towards building CPD units on the subject. Fred presented an outline of a Treaty mechanism that could support such a qualification (under certain conditions) which might also be more widely useful as a model for future IAA developments. A copy of his presentation is available here.

A brief listing of the types of subjects the risk management syllabus would cover included: market risk, credit risk, operational risk, in addition to the classical insurance risk.

The Secretary General recounted, by way of example, that Singapore Airlines belonged to the global Star Alliance for purposes of code share. Each member of Star Alliance operated completely autonomously, but found that the global brand was useful. The ERM designation could very well play a similar role.

One participant reported that in his country even the non-bank financial companies had to move towards risk-based supervision and risk management. It was becoming a key buzzword in the activities of the financial sector. He praised the proposed joint approach, which included national bodies and the IAA, as a very good idea and stated his confidence that his association would be an active participant. Another participant put forward that this would be a positive development that would open new frontiers for the profession. Harry Panjer commented that risk management was a function in a wide range of organizations and expansion to non-financial services could be a natural expansion – not in the short term but in the long term.

One participant remarked that in the United States and Canada the time required to acquire the designation was an issue. Ed Robbins discussed this problem in his presentation which followed.

Another participant believed that this was the wrong strategy for getting the profession into risk management, but was open to discussing the idea. They believed that all actuaries already worked in risk management on a day-to-day basis. Their first concern was that it might weaken the position that the actuarial profession was designed to play by creating actuaries who were qualified for ERM versus actuaries who were not. Secondly, could this ultimately lead to splitting the profession into ERM actuaries and non-ERM actuaries to the possible detriment of what was already a relatively small profession?

Fred Rowley responded that, in his view, it expanded the scope of the profession. It would increase the effectiveness of actuaries and enable them to take the top level job – the CRO – to cover all the risks even if they did not get into the details. In response to the second point, it could possibly lead to a split, but in that case we would ultimately be left with only risk management actuaries.

At the conclusion of the discussion, a show of hands was held to ask if any association, after a period of time, would be an active participant in this kind of arrangement. Participants were then asked whether any association would be a supportive observer, possibly recognizing the value of the credential but not necessarily issuing it themselves. The results of the show of hands were not recorded.

Ed Robbins was introduced as the next speaker, presenting a practical example by describing progress in the United States with the ERM designation. A copy of his presentation is available here.

6. Marketing the profession to our publics

The President next invited Ed Robbins to take the floor with his presentation on marketing. He updated the Forum on the Market Development Plan and included information on future plans and goals for the remainder of 2007 and into 2008. He emphasized that the objective of any actuarial organization should not be limited to increasing the real value of actuaries to their employers, but also to enhance their *perceived* value – both were important. A copy of his presentation is available here.

Comments and questions from the floor included:

- In marketing outside the profession, the population groups that were targeted were mainly potential users of actuarial services, or targets of opportunity.
- How could associations broaden the appeal of the associateship qualification, i.e., target those who preferred non-traditional actuarial jobs or who might want to work in the risk management area.
- With tremendous interest in the risk management field, it was crucially important to get a good cascade of young people into our field.
- People implicitly assumed very high ethical standards for the profession.

- The Norwegians awarded a prize for mathematics each year called "Abel." This may present a marketing opportunity for actuaries because, for example, this year's winning paper was on an actuarial topic (extreme values theory).
- The Pioneer Program identified actuaries that had pursued alternative careers. Articles were written in a fashion that would hopefully inspire young actuaries to think outside the box and consider alternative pathways to using their credentials and training in new and different endeavours.
- Technical skills possessed by actuaries could be used in many different ways.

7. ASSA (Actuarial Society of South Africa): Vision and strategic plan

The Forum welcomed Adrian Baskir who gave a presentation on the extensive work on a vision and strategic plan for the Actuarial Society of South Africa. Most of the issues they were dealing with were relevant to most national associations (probably with the exception of demographic transformation which was a particularly South African issue). A copy of his presentation is available here.

ASSA identified the following as their vision: *"A profession of substance and stature, serving, and valued by, our communities as a primary source of authoritative advice and thought leadership in the understanding, modeling and management of financial and other measurable risk."*

Their five key strategic thrusts are:
1. Review ASSA structure including governance, standards, human resources and funding.
2. Establish independent SA examinations, qualifications and enhance post qualification learning experiences.
3. Promote transformation initiatives to ensure diversity.
4. Enhance the profession's standing with the regulators and general public and establish the "Actuarial Brand".
5. Expand our international role.

A brief discussion ensued of the idea of accredited actuarial employers. Adrian indicated that the idea was favourably received by regulators in South Africa as well as actuarial employers. He added that anyone performing statutory actuarial work would have to be a registered actuarial employer, and that the regulator had bought into that idea as well (which was a big plus). Presently, each company had their own actuarial development program, each was separate, and what they saw through this program was the ability to standardize and to learn from other companies in terms of development of actuarial skills. The auditing profession employed exactly the same system, i.e., in order to deliver statutory audit work you had to be a registered auditor with SAICA (South African Institute of Chartered Accountants).

8. Closing Session

The President reminded participants to return the feedback forms which would be used to prepare for the next Presidents' Forum meeting. She opened the floor to suggestions for topics for the next meeting.

One participant declared a preference for circulating papers in advance of the meeting to allow for more discussion and the exchange of views during the session, with less time devoted to presentations.

Suggested topics of interest:

- Benchmarking on income and expenditures among the associations: what were the different sources of income and the different expenditures?
- Adaptations to new regulatory frameworks: how were different associations adapting to these new frameworks
- External communications about the IAA.
- CPD: another view of the existing situation and future trends, more time for an exchange of opinions; what was working, what was not.
- Actuarial standards of practice: their implementation and monitoring.
- Smaller associations: time to meet with each other to discuss problems of mutual concern (larger associations could benefit from such discussion as well).
- Revisit the topic of standards: what was working, what was not.

Other suggestions for format:

- The opportunity to move to workshops would be welcomed (rather than sitting in one room all day).
- Panel discussions to debate both sides of an issue.
- Presentations or papers available well in advance of the meeting.

The task force to draft the agenda for the next meeting will include: Maria Nazaré de Barroso, Gunnar Kvan, Ed Robbins, and Nick Dumbreck.

Dave Hartman announced that the 50th Anniversary of ASTIN would be celebrated at the upcoming colloquium. Although it was customary for associations to present gifts at anniversaries, he requested that no gifts be presented.

The President thanked the agenda committee, the speakers, and all Presidents of associations for their active participation in the Forum. Discussions were fruitful and she looked forward to the meetings in Dublin.

There being no further business to discuss, the meeting was *adjourned* at 5:20 p.m.