

RECORD OF SOCIETY OF ACTUARIES 1994 VOL. 20 NO. 2

INTERNATIONAL ACTUARIAL QUALIFICATIONS

Interviewer: WALTER S. RUGLAND
Interviewee: W. PAUL MCCROSSAN

This session will discuss the relevant issues affecting codes of conduct, setting of standards, discipline, education, and accreditation.

MR. WALTER S. RUGLAND: With respect to international activities, my activity was primarily as president of the Society. Paul's activity began to take off from his time as a member of Parliament in Canada and consumed much of his time when he was president of the Canadian Institute of Actuaries two years ago.

I think Canadians who are members of the Society have a more open view on the role of the profession internationally. But members of the Society in the U.S. are saying, "Why bother? Don't we have issues at home that we've got to deal with?" Let me ask Paul to give us some rationalization of the global environment.

MR. W. PAUL MCCROSSAN: The question is, why now and what's happening? There are two secular forces out there in the world that are affecting actuaries rapidly. The first we're seeing throughout the world, and maybe a little slower in the States and Canada than elsewhere, is the rationalization of the financial-service industry.

In the South Pacific, Australia, Ireland, Germany, and France, banks and life insurance companies are coming together. In the U.K., you're seeing the previously partitioned financial service sector move quickly toward one financial service sector. In Canada until 1987, there were four distinct, independent financial areas: stockbroking, banking, trust companies (or thrifts), and insurance companies.

Stockbroking in Canada has now disappeared as an independent force. All the stockbrokers are owned by banks. The trust industry has disappeared as an independent in the last three years. They're all owned by banks and insurance companies. So in Canada, as the market has emerged, we're left with essentially two players: banks and insurance companies, each actively moving onto each other's turf.

If you look at developments in the South Pacific, you'll see that in Australia starting in 1988, WestPac Bank was able to go from nothing to a major force in the insurance market. In Ireland, the Bank of Ireland entered with lifetime assurance; it has become a dominant insurance player.

In North America, we're somewhat behind the curve in terms of the rationalization of the financial-service sector. And this rationalization is going to affect actuaries, because actuaries are no longer just in the insurance sector. They're going to be involved in stockbroking; they're going to be involved in banking. Indeed, one of the more rapid areas of expansion of job opportunities both in Canada and in Europe is actuaries in banking. The same thing is true in Mexico.

The other trend is internationalization, where entities develop because of mergers, acquisitions and expansions abroad. Historically, the domestic insurance industry in

RECORD, VOLUME 20

the U.S. is concentrated in the U.S. and Canada. There have been minor moves in Europe and the Pacific Rim. Likewise, European firms have taken steps toward North America, amalgamating and merging their operations into North America, but in a more major way.

Therefore you have two different things happening: First, the broadening of the whole financial-service sector into one, full-service financial industry, and second, the international organization of the industry.

Rules that we grew up with about our own country's practice and our own little niche of the financial-service industry can become our prescription for obsolescence if that's where we leave ourselves. The profession has to adapt by preparing itself to serve the full financial-service industry. Add to this the fact that many of the players that are going to be important by the turn of the century are going to be multinationals. So you're going to have to deal in a multinational environment.

MR. RUGLAND: As you have talked to actuaries around the world and to the leadership of their professional organizations, do you see their models as being the same as ours in terms of how actuaries are employed and how actuarial skills are applied?

MR. MCCROSSAN: Not at all. The organization of the profession in North America, at least Canada and the States, is a function of the fact that we come from a common-law background, that is, English common law. The professional organizations in Mexico and Europe, outside the British Isles, are largely based on the Napoleonic Code, so they have different ideas.

For example, in order to qualify to be an actuary in Mexico, you have to have a period of unpaid public service, because service to society is an important part of being a professional. However commendable it is, and I think it is commendable, it's not something that comes from the common-law tradition.

On the other hand, you have in Japan more company allegiance compared to professional allegiance. And so as we've been having these discussions about creating a global profession, the Institute of Actuaries of Japan's initial position is that we must have a code of conduct, but it should be as weak as possible or a framework.

The position of the perhaps more litigious, common-law countries is that we have to have a code of conduct and it has to be enforceable, so you start from different perspectives. If you're going to have people qualified to practice around the world, you somehow have to adapt all these different cultural backgrounds. And certainly, mixing the two mainstreams of legal thought from the European tradition together with the very cultural perspective of the Asian countries has proven to be quite interesting.

MR. RUGLAND: You mentioned Mexico. Let's talk about the North American Free Trade Agreement (NAFTA) for a few minutes.

INTERNATIONAL ACTUARIAL QUALIFICATIONS

MR. MCCROSSAN: The agreement was signed in 1992. It was ratified last year, and the first meetings of the organization of professionals in NAFTA actually took place recently in Cancun.

NAFTA implies trade in goods, but it is also trade in services. One reaction that actuaries can take is that each country is going to erect barriers and going to refuse each other recognition. That's possible under NAFTA. American actuaries could say, "Canadian actuaries just don't have the right qualifications. They can't come to the country to earn income. And certainly Mexican actuaries have different qualifications and we won't accept them."

The leadership of the profession in North America has essentially rejected that route, because we see developments taking place in the European union, where portability within more than 12 countries is being developed month by month. So we've decided on recognition of each other's qualifications.

Our discussions have shown that many of our problems and thought processes are the same. Arising out of the invitation of Mexico's actuaries, and together with them, we decided we would try to have actuaries accredited throughout NAFTA. Today, the actuaries are the furthest along the NAFTA trail than all the professions. It's quite clear that the actuaries have the best thought out position at this stage with respect to international mobility.

NAFTA requires that if you set rules, they have to be objective and transparent. There can't be protectionism in disguise; you can't set a rule that's based on residence or citizenship.

Transparent means that rules have to look the same from all directions. NAFTA isn't quite transparent for the first few years, because Canadian professionals are allowed to have unlimited access to the U.S. and Mexico. And Americans are allowed to have unlimited access to Mexico and Canada. Mexicans have unlimited access to Canada but not to the States. For awhile, there's a special safeguard that limits the global number of Mexican professions—doctors, lawyers, actuaries, whatever—to a certain number per year; the States worried about an influx of Mexican professionals.

What have actuaries done with respect to NAFTA? The first thing was to determine if we have similar concepts among the codes in Mexico, Canada and the States. Because we have dissimilar concepts of what constitutes a profession, it might be difficult to move from one country to another. Also, do we have similar discipline procedures, and so on.

We established a task force to address actuarial traffic between countries. The recommendation of the task force is that any Fellow of the Canadian Institute of Actuaries (FCIA) be recognized as an actuary for purposes of international practice. That any Member of the American Academy of Actuaries (MAAA), who is either a Fellow of the Society of Actuaries (FSA), Fellow of the Casualty Actuarial Society (FCAS), or Fellow of the Conference of Consulting Actuaries (FCCA), be recognized as qualified in the States. And that any ACT in Mexico who is a member of the College be recognized as an actuary for purposes of coming to work in Canada or

RECORD, VOLUME 20

the U.S. And that's it. If you're qualified, once this schedule is signed, you'll be able to go into another country and earn income as an actuary.

That's sort of level one; if you're qualified in your own country, you're qualified to go to the other country and earn income.

Level two has to do with signing statements; that is, you certify that an insurance company is solvent, or a bank meets the required asset/liability management test, or a pension fund is properly funded. If you're actually going to sign a government required statement, you have to get an additional level of qualification. It has been recommended that you become fully qualified in the host country. In effect, there will be an exam, which may be oral or written, on country-specific practice. So if you're qualified as a pension actuary in the States, you would be able to become an FCIA in Canada by satisfying an exam on pension practice in Canada. Then you'd get an FCIA.

We found that the codes of conduct are similar enough that no changes are required in any codes. But each country, if it makes any changes, is asked to make them in a direction of moving toward uniformity.

The discipline procedures in the three countries are different. We've agreed to accept the discipline procedures in each country. In Canada the discipline procedure involves a public tribunal, so the process is fully open. In the States you have the Actuarial Board for Counseling and Discipline (ABCD), that examines *on camera*, and makes recommendations, and then each of the constituent organizations decides on the action to be taken.

In Mexico, the designation ACT is given by the government through an examination board. The National College of Actuaries administers standards, and then a junta, which is a panel of actuaries, sit as a court with respect to professional transgressions and they report to the government. So all three countries have established discipline procedures that are different.

The fundamental rule is the "when in Rome" rule. If you practice in Mexico, you are agreeing in advance that if you transgress the Mexican standards, you're going to be subject to the Mexican approach, using their rules. If you come to Canada, you're subject to the Canadian rules. Everybody's subject to the local rules if they practice in another country. It means you must understand the rules of those countries.

MR. RUGLAND: At one time with regard to level two, there was a provision for language proficiency.

MR. MCCROSSAN: Well, it's there. If you're signing a government certificate, the professions think it's a good idea that you be able to read the law or even the form that you're filling in. So it's been agreed that if someone from outside the States is going to take this level two qualification, the oral and the written exams are going to be in English and English only. If you're going to take it in Mexico, you're going to write or speak in Spanish. And of course in Canada the exams would be in English or French.

INTERNATIONAL ACTUARIAL QUALIFICATIONS

So language proficiency can be a barrier to getting a level two proficiency. But as far as the various organizations are concerned, you have to be able to read what you're doing and understand the laws.

MR. RUGLAND: If you're a member of the Society of Actuaries, you abide by the Society's code of conduct, and that's not compromised as you move from country to country. It's the standard of practice that is applicable in geographic or territorial areas. And as you move from territory to territory, the standards may differ, but your behavior must not.

MR. MCCROSSAN: Right. The essence of this is that if you enter into one of these arrangements, you accept that the other country's standards and ethics are sufficiently high. That sort of leads to the international developments that we're talking about, because one of the things we're trying to do is establish common codes for recognition throughout the world on behavior.

We're finding out that many different cultures bring different perspectives to things and we have a lot to learn. Professionalism must accommodate these, yet meet its basic definitions.

MR. RUGLAND: It's been my experience that one of the real differences between the two codes of law is that in the Napoleonic countries, you can't be a professional without a university degree. And, in fact, the university degree in most instances is qualification as a professional.

MR. MCCROSSAN: That's right. In the European Union (EU), 15 actuarial organizations throughout Europe formed the Consultative Group. The idea essentially recognizes that actuaries are a small profession in Europe, probably less than 10,000. They were facing the idea of knowing that they were heading towards complete mobility of labor as well as goods. They had to marry two different traditions, the Napoleonic tradition that existed everywhere in the EU, except in the U.K. and Ireland, which was based on common law.

They tried to form the Consultative Group for about four years; and quite frankly, they were suspicious of each other. But they did it, and when the EU brought down the barriers in Europe in 1992, the European commission asked for input from the actuarial profession. Because the actuaries had an international group, they were able to influence the rules in insurance services. They had a large input compared to accountants, even though accountants outnumber them maybe 100 to 1.

So being organized enabled the European actuaries to have quite an influence. Now they faced the same problem we did here in North America. Codes of conduct were different between the different countries. So they took the uniform code that emerged in North America and tried to see how many of the precepts could be applied in Europe. They developed a common code, which all of the actuarial organizations in the EU agreed to about a year and a half ago. Essentially theirs is based on ours.

They've gone beyond that. They've proposed established guidance notes for practice. In the EU, any actuary can move residence to any other country without

RECORD, VOLUME 20

requalifying. There's an adaptation period, and then it is an obligation to join the local actuarial organization if you want to practice. So if you move from Paris to London, you have to join either the Institute of Actuaries or the Faculty of Actuaries.

MR. RUGLAND: And the Faculty or the Institute must admit you as a full member?

MR. MCCROSSAN: Well, no, they have the right for limited examinations. But by and large, the anticipation is that by living a year or two in another country, you'll acquire enough local knowledge to become qualified.

So that's a real difference. The Institute and the Faculty, and also the Society in Ireland, have professional exams designed to be stacked on top of a university education. The rest of Europe actually gets qualified by taking actuarial degrees at universities and getting government recognition. So these two different systems have to be melded.

MR. RUGLAND: Let's look at the lessons that have come out of the European experience.

MR. MCCROSSAN: Well I mentioned that they had a tremendous amount of success in influencing social and economic policy, the sort of success that actuaries in North America might be envious of. While there are fewer actuaries per capita, because they were organized and had a single voice that they could speak through, the Group Consultative, they were able to influence the directives being established at the bureaucratic level.

So the lesson is that if we want to have influence, we have to have an umbrella organization to speak for us together. And we can't do it on the fly; it takes a long time to set it up. Now anything in the European Union regarding the actuarial field results in automatic consultation with actuaries by way of the Consultative Group.

MR. RUGLAND: Well let's move on then to another major area of activity, and that is the consideration of a federation of actuarial associations. Paul, will you relate some background?

MR. MCCROSSAN: Canada was the host of the International Congress of Actuaries two years ago. And one of the things that I was impressed with in North America was the Council of Presidents, how well it worked together with the Presidents and Presidents-Elect of the various organizations, meeting three or four times a year to discuss common problems and approaches. So I had the idea that it might be useful to pull together the leadership of other organizations from nations that have a common law base and have a dinner and an all-day discussion of the issues facing the profession.

We found out quickly that codes of conduct, solvency issues and education issues were at the top of the agenda throughout the various organizations. In fact, we were all trying to reinvent the wheel, but we were all coming up with slightly different solutions. And so, out of that meeting arose a question that really hadn't been anticipated as we started: could we get together as a nucleus and arrive at an

INTERNATIONAL ACTUARIAL QUALIFICATIONS

organization where you could have international portability of actuarial credentials among the common-law-based countries?

This was a sort of radical idea, because it meant that if you are an SOA member and you move to Australia, you're bound not by the SOA code alone, but by the Australian code and standards. How would organizations look at that sort of thing?

We gave every organization a year to come up with an answer. How would they feel about moving toward a common code of conduct, reciprocal discipline procedures, and recognition of each other's qualifications for movement between countries?

We got together a year later in Dallas. Somewhat surprisingly, every single organization came back and said, yes, we think it's time to study this. A subcommittee was formed including the President of the Institute of Actuaries, John Martin, President of the Society of Actuaries, Walt Rugland, and me, to suggest what the basis should be for such an organization.

We met again three months later in Alice Springs, Australia as part of the Australian Institute's biennial conference. At that stage we recognized, I think, that we were on to something. The Institute of Actuaries offered to host the next conference last November. And for that conference, we invited all the organizations whose members were members of the International Actuarial Association (IAA). Most of the organizations in Europe came, as well as the original group.

Discussions in London were focused on expansion of the idea of international recognition, which was developing in NAFTA and which the Europeans had developed for the EU. Should we look at doing it globally?

We had, as the diplomats say, "full and frank discussions." As with all these things, you start off with suspicion. Many European countries seemed to take the attitude that this was an effort to impose the common-law countries' standards and values.

Quite frankly, there was suspicion in the other direction as well about qualification credentials, which from our point of view, only cover basic, actuarial mathematics and none of the practical topics that are in our Fellowship exams.

There was a bit of controversy. It's fair to say that just as we have a North American view of the world, the Europeans have a Eurocentric view of the world. And if they figure it's going to be something international, they are anxious to have it done their way, following their models. The same goes for us.

The Asian and Pacific countries were invited. Except for Australia, they weren't there. The conference conflicted with the East Asian Actuarial Conference, which received a detailed report from John Martin, who flew to it as the London discussions ended.

We agreed to meet again in Orlando at the AFIR meeting in April 1994. At Orlando, we did have representation from Asia and two Japanese organizations. We reached a decision in Orlando to put it to the 1994 IAA Council Meeting in Brussels that we

RECORD, VOLUME 20

should form an International Federation of Actuarial Associations leading toward international recognition of actuaries as a profession throughout the world. We're the first profession in the world to take that step. So we sort of went from behind the curve four years ago to the leading edge now.

MR. RUGLAND: I would observe that it was not smooth sailing to get to that conclusion. In London, with about four hours of allotted time to go, Paul just abandoned the meeting. He was in the chair and said, "We're not going to get anywhere with this discussion. What we need to do is send a questionnaire to various organizations and see what degree of interest they have." The response was quite positive from around the world. And based on those responses, with various degrees of commitment to the type of mandate that an international association of actuarial organizations should or could have, it was agreed to proceed as Paul outlined.

MR. MCCROSSAN: We agreed in principle in Orlando that if an organization is formed, it would have three criteria in place for new members coming in after some date, but that it's impractical to require those criteria as of the date of formation.

The first criterion is that in order to get in the Federation, an organization must have a code of conduct that meets a minimum standard. And the minimum standard that was accepted was the standard of the Consultative Group.

The second idea is that if you have a code of conduct, you must have some way of enforcing it. Therefore, there has to be a codified discipline process. Interestingly enough, many actuarial organizations around the world haven't had a discipline case. Now it could be either because they have high compliance levels or because they have very lax standards of enforcement. So the next criterion everyone agreed on was that if you have a code of conduct, you have to be able to enforce it. But there would have to be some time before that became a minimum criterion. A date will be fixed.

The third criterion that everyone agreed on was that there has to be a mechanism for the local profession to promulgate standards, that is, either exposure to members, discussion at public meetings, or whatever. There has to be a mechanism of bringing in standards of practice.

The idea for the Federation is that there are full members and associate members. Associate members are organizations committed towards gearing up and meeting the three criteria. Full members will have already met the three criteria. Associate membership status cannot be permanent.

Then, moving beyond that, there are proposed commitments to be made by members. They would apply worldwide to every member of the Federation. A major item here is to work on the articulation of the basic education requirement for actuaries.

One implication that flows out of this idea is realization that the SOA, which has always prided itself on its sovereignty, at least in education and requirements to become an FSA, could have the Federation come along and say, what you're doing

INTERNATIONAL ACTUARIAL QUALIFICATIONS

isn't enough. If I were to guess the two areas where our syllabus is deficient in terms of what's happening in the rest of the world, it would be in the area of general insurance, and in the area of investment financial practices. We have many things to offer as well.

MR. RUGLAND: I think Paul is correct that as education requirements are defined, they will need to be considered by the Society of Actuaries. And there are Society groups now that are working hard on keeping track of those discussions around the world.

MR. MCCROSSAN: Other commitments are that if you're going to have transferability of professional accreditation, members of other organizations have to be able to find out what's happening or required in a non-resident country. That's the share information commitment.

Member organizations must also provide financial support to the Federation. This is not a trivial commitment. There have been some preliminary estimates of cost, and if it's up and fully running, it might cost as much as \$10 per actuary per year. Based on professional fees of the CIA, about \$850 a year; the Institute of Actuaries, £500; the Society and the Academy together, say \$600; this does not appear onerous. But several actuarial organizations have fees in the area of \$50 a year, and some are much less in developing areas. To these organizations, a \$10 cost is a big step. India has made the point that they'd like to get in, but even that limited amount of money might cause them problems. Because we obviously want to see the actuarial profession grow in Eastern Europe and in the developing world, and we certainly want to have the profession as it emerges in East Asia be a full part of this, money is a significant issue. You don't want money to be a barrier to professionalism. There will need to be some creative subsidization.

MR. RUGLAND: Let's talk about the governing body authority and its operation.

MR. MCCROSSAN: The governing body would have one member from each member actuarial association, but that one member might have multiple votes. As we had this discussion, we were struck with three different models. One is the UN General Assembly, where Costa Rica has the same vote as the U.S. The other is the UN Security Council, where the five permanent members have a veto. And the other is the European Council of Ministers, where countries have weighted averages based on population, but not proportional population. A weighted number of votes based on the fully qualified members seems to be the approach that finds favor.

The criteria to become a member will be established initially by majority vote, but then require an 80% vote to change. That provides a lot of protection for the small members and the large. With respect to membership issues and decisions judging whether an organization meets standards or whether it should be expelled, a two-thirds vote is proposed. With respect to anything else, including budgets, fees or programs, just a simple majority vote is proposed.

MR. RUGLAND: The proposal now is to ask the Council of the International Actuarial Association when it meets in September in Brussels whether it would, in concept, wish to carry this suggestion forward to the International Congress of Actuaries,

RECORD, VOLUME 20

which meets a year from this September, also in Brussels. The proposal would then go to the International Congress, and a Section of IAA designated the International Federation of Actuarial Organizations would be established in September of 1995. The governing body would then meet during that Congress, and this International Federation would be under way.

MR. MCCROSSAN: It's not a done deal. There is suspicion about motives. Many want to think about it further.

Interestingly enough, the countries of the European Free Trade Association seem to be interested, and obviously they want to become part of these developments. So I'm hopeful that it will take off. If it does, I think that actuaries will have a strong voice internationally as the rationalization and globalization of the financial-service industry take place.