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The International Forum of Actuarial Associations (IFAA) and You

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The IFAA is now two years old. How has actuarial professional development evolved under the guidance of this new organization? What are the accomplishments and the challenges?

In this session, our panel discusses the goals and vision of this new organization. The panel also discusses the need to have an international organization that champions international standards of practice and speaks for the profession.

At the conclusion of this session, attendees will have a better understanding of the vision of this organization and the relevance for North American and international actuaries.

Mr. Sam Gutterman: Chris Daykin will give an overview of the IFAA which was referred to in this morning's session by Harry Panjer. It is a very important development in the actuarial profession, both internationally and locally, because it will affect our activities now and in the far distant future.

I would like to introduce Chris Daykin. He is, in some people's opinion, the most or one of the most famous actuaries in the world today. Chris graduated from Cambridge University in the United Kingdom, qualified as a Fellow of the

Institute of Actuaries and worked his way up through the ranks of the Government Actuaries Department in London to become the chief Government Actuary in 1989. He has authored many publications, several books, and in the last couple of years he has served as president of the Institute of Actuaries. He just finished a year as the chairperson of the IFAA. Those are only a few highlights of Chris' background. In addition, he was just given the President's Award by Dave Holland in recognition of his service to the actuarial community.

Mr. Christopher David Daykin: The background of this topic goes back to 1895 when the International Actuarial Association (IAA) was founded. This body, which has a long and distinguished history, has always had individual membership as its focus. It has provided opportunities for actuaries to meet at international congresses and, more recently, through the ASTIN section (Actuarial Studies in Non-Life Insurance), and AFIR, the section for actuaries that deals with investments and related issues. The IAA has not been significantly involved in activities beyond those particular academic or scientific activities, and the council that governed it met only annually, mostly as a social event, rather than as a business meeting.

In recent years, actuaries in the major actuarial associations became aware of increasing pressures on actuaries worldwide, as a result of trends that seemed to be affecting most actuaries. The regulators that once kept their authority close to the chest (i.e., at the center) are now dispersing their responsibility to professional actuaries. Countries in which insurance and social security have traditionally been in the public sector are now moving or have moved them toward the private sector, which results in more pressure and responsibility on the actuary in the private sector.

The concept of the appointed actuary, which was developed in its relatively advanced form in the UK approximately 25 years ago, has been adopted in a number of countries. That means in many different places that you find appointed actuaries, or someone with an equivalent title, on whom regulators can place some responsibility and who bear the professional responsibility for what's happening.

All of this means that professional bodies have had to focus on professionalism and supporting the actuary in these different roles. I know in the United States there is a complex arrangement with the AAA and the SOA, with the former performing some of those functions and the SOA focused on the educational, continuing education, and scientific components. For the practicing actuary, professionalism, business concerns, and the responsibilities that are increasingly

being heaped on him or her are issues that are inevitably of great importance to the actuarial associations around the world.

As a result of these factors, the leaders of the profession, motivated initially by Paul McCrossan, began to discuss the formation of a new body that would focus on actuaries worldwide and their professionalism. After a very long process, the International Forum of Actuarial Associations was created in 1995 at the Centenary Congress in Brussels. Formed as a section of the IAA, its members are not individual actuaries, but the associations of actuaries, and its terms of reference involve the professional roles, education, mutual recognition, and the representation of the profession at the international level. Currently, about 40 associations are members of the IFAA, including most of the associations of actuaries with sizeable memberships.

What has been extraordinary over the last few years has been the number of new associations that have been set up. Just to mention a few, the Croatian Actuarial Association, the Lithuanian Actuarial Association, the Actuary Society of Ghana, and so on, have all been established within the last four or five years. Most of those new ones have yet to become members of the IFAA, so we may well see the number increasing from 40 members to 50 or 60 members within the next two or three years.

We characterize professional associations, as opposed to social clubs, those that subscribe to a code of conduct, and therefore have as their fundamental basis the concept of professional behavior and ethical responsibility under some degree of control by the association itself. One would also associate with that concept the importance of having a disciplinary process, so that if actuaries do not comply with the code of conduct, the association can investigate their behavior and, if necessary, apply sanctions.

Many professional associations are now determining whether they should issue standards of practice of various types, and whether to control the qualification process leading to a professional designation or to the ability to practice. We also find an emphasis on continuing professional development throughout the actuary's career. And an issue that is of importance to many associations is their liaison with other bodies, in particular with government and regulators. Again, the situation in the United States is more complicated, because the Academy performs the public interface role. In Canada, however, the Canadian Institute of Actuaries covers all of these topics. That is also the case for the U.K. (with the Institute of Actuaries and the Faculty of Actuaries), and many other countries.

Many countries are in a transition. Originally, their actuarial societies started with actuaries just meeting for lunch to informally discuss issues. Some actuarial societies may find themselves thrust into the area of professional affairs, having to establish their own code of conduct, having to set in place a disciplinary process, and having to establish external relationships with other bodies. This has sometimes been a painful process in those countries that lacked an established tradition of actuaries having a professional role. This has happened in many European countries, where the actuarial training was, on the whole, academically based. People learned the job of actuary while working in an insurance company, and the actuarial association was just a meeting place for actuaries to share ideas. It didn't really have a strong role as a professional body.

The IFAA's mission is seen as encouraging the development of the global profession, thereby ensuring that the public interest is served. The IFAA, which is preeminently an association of professional associations, places its emphasis on the public interest particularly through the role of the associations themselves in furthering the public interest. We hope that there will be benefits to the associations that are members. One of the benefits is to be accredited as a member of the IFAA. To become a full member of the IFAA, you have to satisfy the accreditation committee dictate that you have in place a code of conduct meeting certain minimum requirements and that you have a disciplinary process that works. If you issue standards of practice, you must have a proper due process for doing that, and your actuaries also have to be involved in education in an appropriate way, consistent with one that the IFAA has instituted and about which I will speak briefly in a moment. All of those requirements mean that you are recognized as a serious actuarial association with a professional manner. This can be of importance to an association in a country where the traditions are not so well established. It will allow you to be able to go to the authorities and state you are full members of the IFAA and recognized as members of the international actuarial community. This also means others can place reliance on your work as you seek to define the role of the actuary within legislation, within accounting practice, or in other environments.

Another benefit to member associations is the opportunity to find out what's going on within the profession and to exchange information. It will allow them to be part of a network to discover things that are of key interest to actuaries at the international level, such as accounting standards and what's happening with the international association of regulatory supervisors or other bodies. It will allow them to support each other in developing a position regarding controversial issues, perhaps those issues where actuaries want to be able to have a voice internationally and speak with a common position with other bodies that have established a robust position at the international level.

We very much hope that the process of having the IFAA in place and having many new member associations will create a demand and an opportunity for a new focus on professional issues at actuarial meetings and within associations. Something that was particularly striking about the recent meeting of the Actuarial Society of South Africa was that many of the papers presented were essentially about ethical and professional issues. There was relatively little presented about detailed technical issues. The actuaries in South Africa feel that they can discuss technical issues when they want. When they come together for a convention, they talk about ethics, professional behavior, and the professional challenges that are facing the actuary in making decisions. From that perspective, it was quite a stimulating meeting. I also think the Canadians and the Australians set high standards for the world in the way in which those things are done.

The IFAA has within it a substantial committee structure, as any actuarial association would be expected to have; it seems to be growing by the minute. The Accreditation Subcommittee is mostly concerned with getting associations into the body. When Walt Rugland was chairman of that subcommittee he perhaps thought this would be done within the first couple of years. I have just sent out letters in the last couple of weeks to 15 new associations that are considering joining, so I don't think the task of the Accreditation Subcommittee is quite over yet. We'll talk about some of the other tasks shortly. The role of the Nomination Subcommittee is obvious. The Advice and Assistance Subcommittee may need a little more explanation, and we will focus on the accounting standards subcommittees because they are dealing with operational issues of quite considerable importance to the worldwide actuarial profession.

We will first discuss pension accounting standards, and then we'll discuss insurance accounting standards, which is Sam's area of expertise. The background to this area involves the International Accounting Standards Committee (IASC), which has existed for a number of years. Some of you may be familiar with the international accounting standards that they've produced such as IAS 19, "Accounting for Employee Benefit Costs in Company Accounts." The IASC hasn't been a very influential body, because in big countries such as the U.S., there is an existing accounting standards board that adopts its own standards of practice. People in the U.S. didn't worry too much about international accounting standards; they have only been concerned only with the FASB standards. The U.K. has accounting standards known as statements of standard accounting practice (SAPs) which are the focus of attention for companies operating in the U.K. Similarly, in other countries, there are individual accounting standards boards that operate. The international accounting standards really only counted in countries where there wasn't a local standard-setting process.

That is all changing because of the desire of the International Accounting Standards Committee to develop a package of international accounting standards that will be truly influential in the way in which accountants around the world think and act. The reason they can do this is because of their interaction with another international body called the International Organization of Securities Commissioners (IOSC). This body brings together all the stock exchanges from around the world, and is setting standards for companies that want to be quoted on multiple stock exchanges. If you want to be quoted on other than just Wall Street or London—such as on the stock exchanges in Frankfurt and Tokyo, then you will have to comply with the international accounting standards laid down by the IASC. This process is due to come to a head next year. By next year, IASC will have delivered to IOSC a set of international accounting standards to set the pace for this particular operation.

The IFAA was established just over two years ago at a really key point in this process, after the accountants had just issued some of the earlier exposure positions on a revised version of IAS 19, the employee benefit accounting standards. This was obviously an area in which the IFAA had to get involved. We were set up to be involved in such areas, but it stretched us in terms of learning to respond to these international issues quickly within the time frames set by another body, and in terms of reaching a consensus among ourselves, so as to be able to issue appropriate public statements.

I don't think we need to concern ourselves today too much with the details of the process. The IFAA actuaries had a number of significant concerns about the content of the IASC exposure draft (E54) from both a technical perspective and in terms of the way in which the role of the actuary was being utilized within this standard. This very much interacts with the professional responsibility of the actuary in advising pension plans.

I will briefly describe some of the particular issues that we have been involved in are set out here. The accountants seem to be coming from a position where the assets of any organization have to be stated on a fair value basis, essentially market value or equivalent to market value where a market does not exist. However, they then say that the liabilities can be assessed as though the assets weren't there. They have a complete disconnect in their mind between assets on one side of the balance sheet and liabilities on the other. As soon as actuaries come along and say you can only value the liabilities when you have an understanding of the assets that are backing those liabilities, the accountants disagree and argue that the value should not be affected by what people actually choose to invest in because that's a separate decision; therefore, the value of the liabilities must be independent of the values placed on the assets.

This was a difficult concept for actuaries to try to communicate with the accountants. The consequence of it, from the perspective of E54, was that the accountants proposed that liabilities would be valued using the discount rate on high quality corporate bonds, regardless of what the liabilities were or what assets would be most appropriate for those liabilities. The accountants did recognize that in some countries index-linked bonds exist and the liabilities are index linked, since these might be the matching assets. What the accountants didn't recognize was that in many countries, such as the U.K., Canada, and the Netherlands, a substantial proportion of the assets of pension funds are in equity investments and common stock, and corporate bonds whose interest rates they had proposed to use either don't exist or are considered to be nonmatching assets because they are entirely inappropriate in view of the nature of the liability. This was a major issue in which you would have expected actuaries to have something to contribute and where we felt we had to argue our position.

Another key issue was the question of recognition of actuarial gains and losses. As you know, under existing accounting standards, such as SFAS 87 (SSAP 24 in the U.K.), the actuary has a certain amount of flexibility in the recognition of profits and losses, usually with some form of amortization over time of any gain or loss that is appearing at a particular balance sheet date. The IASC wanted its accounting standard to state that within a 10% corridor there would be no recognition of actuarial gains and losses, and outside the 10% corridor there would be immediate recognition. Thus, there would be no amortization, but rather the gain or loss straight to the bottom line. The IASC was very rigid on this and argued that anything that went outside the 10% corridor was an exceptional circumstance that ought to be recognized immediately in the accounts. We had to explain to the IASC that both issues are related. If you put methods of asset valuation and liability valuation together that are not consistent, then you get spurious fluctuations in the gain and loss. If you then force people to recognize those gains or losses immediately, you can get enormous swings in the company's financial results due to what is really a completely inappropriate technique for recognizing the costs of pension arrangements.

This has been quite a battle, one which I think we hoped, when we entered into it, we would end up winning. We hoped that accountants would be pleased to hear that actuaries had an international body that they could talk with and that would be influential. Instead, we found some vitriolic feelings from certain accountants towards actuaries. That was a shock.

Somebody as familiar with the ways of the world as Paul McCrossan—who has been in politics in the Canadian government and president of the Canadian Institute of Actuaries—has seen many things, but he was almost driven to

distraction by the antagonism that actuaries faced when they were in front of the IASC's Board and Steering Committee. Certain members of these groups characterized actuaries as manipulators and unprofessional people who just use their judgment to get the answer that their clients want. They characterized accountants, however, as having clear standards. Their objective is to have everything comparable and not able to be manipulated. The interesting thing for us to think about is whether actuarial judgment is truly professional judgment as we characterize it, or does it constitute an opportunity to manipulate the answers!

This is an ongoing process. We haven't given up yet. We've had many setbacks and we're still trying to convince the accountants that some of their thinking is faulty. If we can't convince them, then we may have to go beyond that. Maybe some of our Canadian colleagues will be able to report on their thinking here; one of the aspects that was under consideration was whether actuarial associations would disassociate themselves from this new standard and say it is inappropriate, professionally incorrect, and therefore, any statements that are in accordance with the standard are liable to mislead the public. It could be that our public interest role might force us to make some sort of statement of that nature.

On the question of public statements, if the role of the IFAA in connection with this type of activity is to be useful, we have to be able to come out and say what we think. What we want to be able to say is that this is the view of the world's actuaries or this is the view of the associations of actuaries that are members of the IFAA. As you can imagine, that's quite a difficult thing to achieve, because we have 40 associations; each of those associations has many members; in total probably about 35,000–40,000 actuaries. You can't get all of their individual views, and if you did they wouldn't all be identical anyway. However, we had to have an effective process. We agreed on a process to issue statements that would, in a way, limit us to making statements on issues that were thought to involve actuarial expertise, and where there was a consensus among actuaries that would enable us to make a statement. We won't make statements on issues where substantial disagreements exist among the actuaries involved, because then we wouldn't be able to reach consensus.

We have an open process. All associations are invited to participate in any subcommittee that is working on a topic which may lead to a public statement. When we're getting close to making a public statement, drafts will be circulated, not only to the subcommittee working on it, but to all the member associations. During the final stage, we will circulate the proposed draft to all the member associations and give them two months to return their comments. We have to

work through any adverse comments, and, if necessary, we may have to start again. But if we get satisfactory acceptance of the statement, then it can be delivered to as a formal public statement of the IFAA. We don't say that it is a statement of each of the associations. Some associations are not in a position to make public statements. The SOA is among those associations, which constitutionally has to get a very high percentage of their members to agree before they make any public statement. The statement is a formal statement of the IFAA. We list the member associations, and we list the participants of the subcommittee, both the individuals that are involved in producing it and their associations.

The role of the Advice and Assistance Subcommittee is in two parts. First, it helps associations with requests on how to form themselves into professional bodies, or how to set up a disciplinary process. There is also a role in helping new countries that lack an association and where people are trying to form a new association. We try to help them move into this new area. Second, this subcommittee will address new issues, during the time it takes to put a new subcommittee in place.

On the education front, one of the criteria for admission to the IFAA has been a commitment to work together on the development of educational requirements. These would have to become part of the conditions for full membership some time in the future. We've designated a timetable that we will set the requirements by 1998 and by 2005 member associations will have to comply with these requirements for new full members whom they admit. We have developed a common core syllabus, which we hope will be accepted as forming the basis of actuarial education in all the member associations. We cover different levels of actuarial education: preliminary actuarial mathematics and actuarial mathematics—the foundation techniques required for all actuaries—application-oriented areas of practice, professionalism and ethics. This syllabus is now taking good shape. It has been formulated as a guideline to associations rather than as a formal requirement. This gives flexibility to different education systems in different countries and to different entities, given the fact that some associations insist on wide practice area requirements, and others are much more focused, such as the focus of the Casualty Actuarial Society on the practice of property/casualty insurance. The SOA, on the other hand, has focused on life, health, pensions, and investments, and not so much on other contingencies. We have to accommodate some of their differences, although some associations believe that you can't really be an actuary unless you know something about applications in all application areas of actuarial science.

We have just established a new subcommittee to deal with social security issues. This was requested by the International Social Security Association (ISSA), which wanted to have a liaison between actuaries and itself on questions relating to the role of the actuary in social security, possibly to develop standards of practice for actuaries in that area, and generally to enhance the position of actuaries working in the field of social security. The IFAA is also discussing establishment of another subcommittee to deal with supervisory and regulatory issues in the field of insurance.

The secretariat of the IFAA is now situated in Canada, following a tender process. The Canadian Institute of Actuaries has a designated director who deals with IAA and the IFAA issues. The IFAA operates in a bilingual environment (English and French). Since we have cultural, regional, geographical, and linguistic diversity, we are seeking to rotate our leadership. We have a one-year chairmanship, with the chairman having a year as deputy, a year in post, and then a year as past chairman. We hope to rotate the chairmanship around the world in such a way as to involve as many associations as possible. Similarly, our meetings take place in many different places. Last time our meeting was in Australia, the next one is in Cyprus, the one after that is in the U.K. Following that it will be in South Africa. That puts a strain on people's attendance at meetings, but on the whole, attendance so far has been good. We also support teleconferencing at most of our subcommittee meetings for people who can't make the meetings in person.

We have a web site. We use the Internet to transmit much of our information, which we are finding saves us significant mailing expenses.

A key issue at the moment is where the IAA is headed. After we set up the IFAA, the leadership of IAA recognized that maybe the IAA should be controlled by the member associations as an association of associations and should, in effect, integrate itself with the IFAA.

It's not possible to do it quite as simply as one might imagine. There's a lot of discussion on how to achieve this, because the IAA's decision-making body is the general assembly of its members. In order to change the constitution, we will have to hold a general assembly at the next International Congress of Actuaries, which is in Birmingham in the summer of 1998. If we miss that particular occasion, it will be another four years until another general assembly. Ideally, things ought to be done next June at the Birmingham congress, but that doesn't leave us very much time to get it right. There are many important issues that have to be sorted out in getting the constitutional changes correct.

One of the consequences of this will be that the IAA may then establish new sections. We may end up with a life and health section. We may end up with a pension and social security section, which could become flourishing areas of international CPD and research activity. Also, we expect that the presidency of the IAA will rotate as it does at the IFAA, maybe every year or perhaps every two years. Up to now, the presidency has been essentially a job for life and for historical reasons it has always been held by Belgians.

These are quite important changes in the IAA's constitution that will affect associations worldwide. One of the lessons we've learned over the last couple of years is that the world is becoming very much a single village, in terms of the interests of actuaries, with the same problems affecting actuaries around the world. We can't just keep our heads in the sand and look only at our local issues. We need to be aware of what's happening internationally. We need to be working with actuaries in other countries. We need to grasp the opportunity for each of our associations to be involved in the international process, and thereby to contribute towards the effective globalization of the profession.

I'd now like to introduce Sam Gutterman. Sam is the chairperson of the IASC, Insurance Accounting Standard Subcommittee of the IFAA. He has fulfilled that role since it was established a year or so ago, in anticipation that the IASC would develop some standards for insurance company accounting. What we didn't realize at the time was that there would be a flood of other accounting standards, that would have relevance to the question of insurance accounting standards. Sam's subcommittee has already had to set up a big structure of task forces or sub-subcommittees to deal with many aspects of this problem. He's going to bring us up to date with some of these current issues and where we're heading regarding insurance accounting standards.

Mr. Gutterman: It's the aim of the IASC to get a core set of acceptable standards approved by 1998. In their mind, this core set of standards excludes the valuation and accounting for insurance obligations which is obviously important to insurance companies. Their current proposal is to be able to value insurance company assets on the basis of their fair value, while the basis for measuring their obligations remains undefined. That strikes some people as being a curious approach to insurance company accounting.

The core issue is the proper basis of accounting that multinational companies will be responsible for maintaining. The current indication is that the basis for future accounting internationally is their fair value. The question then is, what is fair value? It has been talked about a lot; it has not been implemented, in my mind, fully in any country to date. First of all, fair value is market value, if a

market value exists, or a surrogate value if there is no such market. In the latter case, it may involve a set of valuations of discounted cash flows. The basis for that would reflect the time value of money and a corresponding assessment of risk.

On the international scene, as well as the U.S., the most significant issue with implementing a system of fair value accounting may be the potential volatility that fair valuation could result in. This has pitted banks versus the rest of industry. In the U.S., a heated discussion over the last five years has involved the proper valuation of derivatives. The banking industry has been vociferous in its opinion that fair value is not an appropriate accounting basis. In the last couple of weeks, Mr. Greenspan, who also happens to be the chief regulator of banks in the United States, has come out opposed to fair valuation of accounting and in particular of derivatives, as opposed to the rest of business which has generally been in favor of fair valuation.

In the international accounting scene, it may also be banks versus the rest of business, with insurance companies not taking a particularly strong position in terms of opinion with respect to fair valuation. This issue has come up in the IASC's discussion draft in accounting for financial assets and liabilities, in which in its core set of standards it did not address insurance obligations.

The IFAA issued a public statement that has been approved through its due process procedure that, in effect, the international actuarial community agrees that fair valuation is a reasonable basis for an accounting framework. However, we also stated that fair valuation of assets should not be implemented while at the same time ignoring fair valuation of its liabilities. It didn't make any sense to do otherwise. In particular, in the life insurance area, a company may have assets with fluctuating market values while its liabilities are measured using a potentially wide range of standards, such as book value.

So far this issue has been quite significant one and a significant one in discussions. There is an upcoming meeting of the IASC Council, in which the primary issue is whether or not fair valuation is the way international accounting standards should go. As a secondary issue at that meeting, they will address the pension obligation issue. For actuaries accounting for pensions is a significant issue, but for accountants the ball game is whether or not the banks win or the rest of business wins in determining the future basis of international accounting.

The IASC project on insurance obligations begins in December with the first steering council meeting on insurance obligations to be held December 18, 1997. Paul McCrossan is the official representative liaison. This may be the first

time that a non-accountant would be an official member of an IASC working party, which is a breakthrough. Paul will certainly stand up for the position of actuaries in that group.

The IFAA has organized a subcommittee on this issue, which has met twice so far. We have one working group on insurance product valuation, which is primarily concerned with life insurance. In addition, we've discussed the potential for using a variation of an embedded-values method. A general insurance committee working group is active, as well as one discussing the role of the actuary in this area. A fourth working group is discussing consistency among accounting treatments among financial institutions. We feel that a similar product should be accounted for whether it is offered by an insurance enterprise or a noninsurance enterprise.

Another small group of which I am the temporary head, covers other IASC standards. Currently, we are discussing proposed IASC standards on impairment of assets, and general provisions (basically self-insurance on a corporation's balance sheet). This latter issue generally relates to property/casualty insurance, but it also affects health insurance. Right now, this proposal may require discounting such obligations with no reflection of risk. I am certain that actuaries will have several points to make here. Unfortunately, comments are due by the middle of November 1997. We will be strapped for time to develop a statement, but I think it is a very significant issue.

We have reached some tentative conclusions. As I mentioned, if fair values are used, they should apply both to assets and liabilities. I'll back up for a moment and discuss something that Chris briefly covered. One reason why the accountants now believe the fair value of liabilities can be separated from the fair value of assets is because of the concept embodied in financial economics which treats insurance obligations as if they were tradable. As such, they could be potentially securitized. This fair valuation of insurance obligation should be independent of the assets underlying them in the insurance enterprise. That's what the theory would lead you to. The question is how this translates into practice. The fair value or potential market value of obligations is the right question; if there is a market, the objective is to value each obligation independently. A separate question remains, does this make a fair representation of the financial position of the enterprise itself? In my mind it is a much more complicated and not so obvious an issue. This is something that we'll be discussing in the future.

An objective of our subcommittee is to develop a generally accepted method of fair valuation of liabilities during 1998; however, that may be a little optimistic

because actuaries have struggled with this issue over the last couple of decades, and we have not yet reached a consensus. If you look across the spectrum of international accounting, probably the one area that has the most significant variation among companies has been in the insurance accounting area, particularly in the life insurance accounting area, because so far no consensus has been reached as to the most appropriate approach.

One thing that we have talked about is having an actuarial opinion included in the financial statement for GAAP. This would be the first to have an actuarial opinion alongside it. There are many ramifications for us to deal with, and it will be a challenge for the international actuarial profession.

In the area of life insurance, we have not come to many conclusions yet. What we want to derive is a non-country-specific methodology. In coming up with a valuation of liabilities, this may be very difficult and complicated for a multinational, which may have different distributable surplus based on the individual corporate entities operating in different countries. It may involve some embedded-value concepts. It certainly would be inconsistent with current reporting used in most countries. In terms of the international insurance accounting community, this may represent a revolution in approach. Because of this, it may be difficult to obtain general acceptance.

On the property/casualty insurance side, a tentative conclusion that has been reached by the subcommittee is that loss reserves should be discounted. However, it is also important that they should be discounted with an appropriate adjustment for risk, that is, with a provision for adverse deviation and disclosure of the discounting assumptions. This is a radical change from current practice in, I believe, almost all countries. There are some hints of this approach being used in Europe in their current compromise approach, but this is an issue that is going to have to be addressed.

We will also be looking at the need for catastrophe reserves. The Japanese actuaries are strongly in favor of this for obvious geographical reasons. A significant issue or problem is that catastrophe reserves are not consistent with current U.S. standards and approach. The accountants here threw a provision for catastrophe reserves out about 20 some years ago because they thought it led to too much manipulation. Many accountants still feel this way, but it is something that we have to examine, as well as the potential for a European style equalization reserve.

Mr. Walter S. Rugland: As Chris mentioned, I have a nine-month term as chairperson of the IFAA Committee. One of the confusing tasks I have is

describing what being the chairman of the Committee of the International Forum of Actuarial Associations means. First, I have to explain why it's a committee and not a council. Chris did that. Second, I have to explain why it's a forum and not a federation or an association. During the process of reaching international agreement on this entire enterprise, we realized that the term federation was not appropriate in some of the organizations, but the word forum was. That's why we have a forum. I say it's the International Association of Actuarial Associations when I'm talking informally.

The next thing I have to discuss is very important, to keep in mind that this is not an actuarial association. It is an association of associations; that has been recognized in the discussion you heard. Being chairman is very different than being president of one of the associations. I am a facilitator. The association of associations brings together associations. While preserving the sovereignty of each association, it creates a forum where issues can be addressed and adopted as a group of associations.

As Chris mentioned, it is very important that it involve an open process, that there not be a "club" that runs it, that every committee that undertakes a task has as one of its charges to make sure that its terms of reference are clear and that every member association can appoint a delegate to work on that particular committee's job. As a result, we have only one delegate from each association, but delegates have a variable number of votes, depending on how large his or her association is. One of the requirements is that every action to be taken must have substantial notice (90 days notice) with the hope that each delegate will be instructed by their organization or by their association, as to how to vote on that particular issue.

Many actuaries within the SOA ask me why the IFAA is important. Five years ago, the SOA had about half the actuaries in the world, which I think is still the case. There was an immense amount of activity throughout the world that was going to need to have the skills of members of the SOA; this is the narrow SOA view. We were going to need to be able to exploit the skills of the members of the Society around the world, and in order to do that, it was my feeling that the SOA had to gear itself up to be able to admit actuaries from around the world into its circle. You can't expect to export without being willing to import.

What were the issues that we had to address if we were going to accept actuaries from around the world as being colleagues of ours? The real issues boiled down to professionalism. Were they educated well enough? Did they have a platform of professionalism, a code of conduct, a discipline process that we could rely on, that could be used to allow them to become colleagues of ours within the SOA?

Mo Chambers and I went to Brussels to sound out the leadership of the IAA on that very issue. Was there a chance of being able to establish a code of conduct by the IAA so that we could begin to do that? At the time, the answer was no there wasn't. Paul McCrossan then began the discussions to establish an international platform of professionalism for actuaries.

The benefit for a member of the Society of Actuaries is the same as that of a member of any actuarial organization is that we can become unique and we can help actuarial associations grow. We can create an international profession. However, the bottom line benefit for each and every actuary is that we will probably break down barriers and we can position actuaries to take their skill sets wherever those skill sets are perceived to have the most market value. Eventually I hope that we'll be able to do that.

From the Floor: I've been retired from actuarial practice for ten years, so this gives me a good perspective on the globalization of the profession and the activities that are going on today. I think one of the really wonderful developments of the Society of Actuaries is the fact that it has become international in the last 20 years, and in particular the last few years. I read in the paper that there are mega mergers all over the place, many of them in Europe, many of them here, and many of them in the financial services area. I suspect that the insurance companies and banks are going to be taking over one another, and many other financial service aggregations will be quite different from what we have today.

I have two questions. How is the IFAA financed? Second, is not the fact that insurance is state regulated in the United States inconsistent with the globalization of the insurance industry?

Mr. Daykin: The financing is based on contributions from the associations, which are levied according to their size, and that size is defined as the number of fully qualified members. In the case of the Society, that's not very difficult to determine. That means the number of fellows for some other organizations it's up to, it to determine what classes of membership are "fully qualified." One of the problems that this creates for North Americans is that most, if not all, actuaries are members of more than one association. Because all of the actuarial associations in North America are members of the IFAA, they all have to pay subscriptions based on the number of their members. This situation also applies to the Institute of Actuaries in the U.K. For example, virtually all Irish actuaries are Fellows of the Institute of Actuaries. They pay through the Society of Actuaries of Ireland, but they're also within our head count as fellows. The same applies for the actuaries within South Africa and Australia. However, the larger

associations do carry more votes. It's a very carefully constructed system so that each major block of associations have a veto on what goes on. North American associations have a strong position; European associations have quite a strong position. Everything, therefore, has to be done by consensus. But it is paid for according to the number of full members.

Mr. Gutterman: Accounting has to be defined in terms of the audiences for which financial information is being provided. Chris and I were talking about GAAP, which is for general purpose financial reporting, in particular generally used in reporting to company owners. Traditionally that has been very nation specific, primarily because stock exchanges and accounting organization have been very nationally oriented or nation-specific. However, with the growing worldwide need and flow of capital, and as capital has increasingly flowed across borders, there has been an increasing need for common international standards for reporting. In the last two or three years, there has been an increasing number of non-U.S. corporations that have wanted to list in the New York Stock Exchange, that being the most liquid stock market in the world today. As a result we've seen many companies that have been moving and converting to U.S. accounting standards, often in addition to those of their home market. However, companies are more often saying that U.S. stock exchanges are not the only source of capital in the world; therefore, they also want to be able to list on the London or the Paris or the Hong Kong stock exchanges. That's a significant reason for this movement toward the IASC standards that we referred to.

The specific question you raised involves the regulation of insurance enterprises. In that context, the U.S. experience has been local control of a domiciled insurance enterprise is the appropriate focal point for regulation. Traditionally, regulatory concerns involve more than just insurance accounting. Other concerns have included agent regulation, market conduct, as well as evaluation of the solvency of insurance companies. In addition, the future of state regulation in the U.S. may evolve, based on the needs of the local versus the global need for regulatory standardization. Although it could go either way or more likely have some responsibility at the local level, with others at the national or global level, in the U.S., regulatory reporting is basically dictated on a national basis, because you have standard U.S. reporting forms, although there are some specific state variations. In contrast, Canada has primarily a national regulatory system. I would suspect that for regulatory and reporting purposes, it will remain national for a while. Most likely, however, as more companies become multinational, there may be some internationalization of common reporting. For example, because of a corporation's ability to shift capital from one country to another, capital may move toward the onshore site of the companies or business might move offshore. If the latter occurs, this may result

in more international requirements. So far in the U.S., most insurance regulatory control is conducted at the state level even though there is a common national financial reporting format. Most recent discussions about where financial regulations should be focused has assumed that controlling banks would be done on a national level and insurance companies on a state level. I am certain these issues will evolve, but to where I can't say.

Paul H. Grace*: As some of you probably know, Europe, within the European Union, has set out to achieve a single market for financial service products. The target date was July 1994. I think in theory we've gotten there, but it's not working as it was intended. First of all, we've had a series of insurance directives aimed at achieving common standards for solvency supervision. The Consultative Group, to which a reference was made earlier, had a major impact on the third directive, in that the Group put to the Commission a series of actuarial principles for adoption by member states. The principles were aimed at the standardization of the determination of insurance liabilities. The technical provisions are being made for long-term liabilities. That has worked quite well. Under the Single Market, solvency supervision rests with the home country and not the host country, so companies such as Scottish Equitable, based in the U.K., can sell its products in theory in Germany, Italy, Luxembourg, Greece, and so on. However, the regulation of marketing of products remains with the host country, not the home country. So if we sell in Italy, we have to conform to the Italian regulations for marketing; that's where things start to go wrong. It's not achieving its objective in the UK.

On the accounting front, we have an accounts directive, which led to major changes in the past 12 months in how life insurance companies can present their accounts. In addition, there are certain standards in the case of the U.K. The industry has to agree to a standard with our own Accounting Standards Board (ASB). Despite the fact that we've had to have these new accounts in place for the last 12 months or so, we still haven't agreed to a standard within the industry that's acceptable to the ASB. Although they hope these will be in place by the end of this year, I have great doubts.

Mr. Daykin: Regarding the supervisory issue, I did discuss briefly the question of the International Association of Insurance Supervisors (IAIS), and Walt and I had the privilege of participating in a panel discussion at their annual meeting this year. I was acting as a regulator and Walt was acting as the chairman of the IFAA. We were asked to run a session on the role of the actuary, so we gave a

*Mr. Grace, not a member of the sponsoring organizations, is President of the Faculty of Actuaries at Scottish Equitable in Edinburgh, United Kingdom.

full plenary session on the role of the actuary to supervisors from approximately 100 countries, which I thought was quite encouraging. The IAIS is flexing its muscles and is looking to develop standards internationally for insurance supervision. It may define the role of the actuary, principles of technical provisions, and capital adequacy. These topics are on their agenda in one way or another. John Thompson is the new chairman of that body, an actuary and the supervisor in Canada. Walt is going to talk with him about how we can foster this relationship between actuaries and supervisors worldwide in the hope that we might develop a useful relationship.

From the Floor: You were saying earlier that for an association to obtain full membership it has to meet all the characteristics of a professional association. Is that right? What happens if you don't meet any of them or only some of them?

Mr. Daykin: Any association of actuaries can join as an observer. The only criteria to become an observer is that you have to already be a member of the IAA as an association, and you have to pay about \$60 Canadian a year. That's the starting point if you don't already have a code of conduct in place.

From the Floor: The reason I ask this is because I practice in a Southeast Asian country, where business is done somewhat indirectly. Some associations may not want to apply mainly because they will not meet certain criteria and their pride will be at stake in not meeting the standards. I'm concerned that if you look at the future of meeting international standards, then it is precisely these associations that do not have all the characteristics of the professional associations that would need the help of those that do have the characteristics of a professional association. If they were to come in as a lower class of member, then I'm a little worried that you might not be able to get all the associations to enter that lack these characteristics.

Mr. Daykin: We're encouraging all associations to come in, even if initially as an observer, because that brings them into the process, helps them to know what's going on, and enables them to be part of the shared experience of the world actuarial community. I think a number of associations in Southeast Asia have been unsure where to stand on this. Malaysia and Hong Kong are starting as observers. Indonesia is seeking to be a full member. We have issues to sort out with them about their codes of conduct, which is very extensive, but they don't match up exactly with those of other countries. However, there are cultural differences. We experienced something similar at the start with the Institute of Japan, which is one of the oldest actuarial associations. They wanted to be a full member from the beginning, but their code of conduct was not identical to the European or the North American codes. In fact, when we looked

at it in detail, it had most elements in common, and only one or two minor issues arose, involving disclosure of remuneration that caused problems, which they rectified early on. I'm very hopeful that all of the associations in that region will become active in the IFAA, at least initially as observers. Then we'll work with them to implement the remainder of the requirements for full membership. There's also an Associate Member category for those that meet some, but not all, of the criteria for full membership and are committed to getting everything in place within a short period of time.

Mr. Gutterman: I would encourage each organization to talk with the IFAA and to identify what things are currently missing, and what things are needed. I hope that the organizations would contact individuals like Walt Rugland or the chairperson of the accreditations committee, Howard Webb of the U.K. or Nicole Seguin, who is our Executive Director in Ottawa. If there is such an interest, dialogue is most important. Discuss the differences, what's needed, what's desirable, and what the benefits are.

Mr. Rugland: I try to not use the word "member" when I refer to an observer, because we really have accredited members. From the very start of the development the IFAA, we said it should be an organization to which associations will aspire to belong, and there is an accreditation process that must be satisfied. It is remarkable how many associations have converted from discussion groups and dining clubs to establishing a professional base; and they've done it with vigor. I would say to Sam that it's possible, and the more you can carry the message, the better.

Mr Robert L. Collett: This has been an excellent session for the people here, but I am concerned that many of the people here are already the converted. Many of us have been involved at various levels of the IFAA for a long time. What really concerns me, particularly with respect to the SOA, is the number of empty seats. How can we become more evangelical with respect to the members of the Society of Actuaries? I fear that by not being aware of what's going on, SOA members are going to be left behind. The world is changing. Thank goodness that at least the leaders of the actuarial profession are recognizing that and are moving to the forefront. My concern is with the body of our members who are going to have difficulty catching up or who aren't even aware that the world is changing.

Mr. Gutterman: That point is very well taken. Most organizations attract attention when they show their worth. So far the IFAA has been in its infancy. It is now at the stage of having to prove or show that it is valuable and that it will affect the lives of many actuaries in their day-to-day work life. As the IFAA

continues to show its worth, more people, if appropriately communicated with, will indeed become far more interested.

From the Floor: I am now managing a life insurance company in Korea. I think the IFAA could be a valuable organization for some Asian countries which are highly regulated and in which actuaries have no power or status. They could develop a very effective organization. As a regulator, Chris, maybe you can work with regulatory associations so that they can give actuaries in those regions some status, power, and also encouragement. They really need that kind of professionalism.

Mr. Daykin: That's a good point. That transformation is occurring in many regulatory systems now. We've seen this in a number of European countries that previously had very centralized control which are now changing. Germany was perhaps the most centralized of all the countries in terms of the degree of control exercised by the supervisory authority on pricing, reserving, and practically everything. Europeans now have responsible actuaries in nearly all European countries, giving them a special role. Singapore and Malaysia have appointed actuary systems in place. The wind of change is there. Still, there's much more work to be done, and I'm hopeful that the IAIS will be influential in that respect. There's a lot of interest from regulators in countries that currently are running a more controlled system. They want to know how they can build up the actuarial role. It's something that the IFAA will be seeking to address.

Mr. Avi Bar-Or*: As the president of an association of actuaries, it is a privilege to be here. I had hoped that there would have been a larger audience here so that I could tell people what the IFAA means to a small association. I think it is imperative for any association to join this forum. It contributes tremendously to individual associations. The Israel Association has been around for 51 years. We have tried throughout these years to maintain the high standards of practice and codes of conduct that conform with those of the IFAA. In addition, through the IFAA we are the only Israeli voice that is heard internationally with regard to the development of international standards of accounting, as our accounting society is currently not at all involved.

*Mr. Bar-Or, not a member of the sponsoring organizations, is with ILD Insurance Company, Ltd. in Tel Aviv, Israel.

