SOCIETY OF ACTUARIES

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need to push forward the boundaries of actuarial science.

Indeed, the new structure may provide the impetus and the opportunity for further expansion and deepening of the IAA's program of activities for individuals' continuing professional development, for example, through the creation of new scientific sections for life and health insurance actuaries and for social security and complementary pension scheme actuaries. One way and another, the actuarial profession is now set on course for strong development at the international level.

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Recognition of Actuaries and Competition in Europe

by Wilhelm S. Meijer

Editor's Note: *Wilhelm S. Meijer, AAG, presented this paper on April 21, 1997 in Zeist, The Netherlands.*

In 1991 the actuarial associations in countries that were members of the European Community decided to implement a mutual agreement to recognize the full members of their associations as colleagues and competitors in the various "home markets" of the EC.

And although there are many complaints about the slowly maneuvering Brussels bureaucrats, this time the actuaries' initiative resulted from steps taken by the EC Council of Ministers, based on the work of those bureaucrats.

In 1989 the EC Council adopted a "Directive on a general system for the recognition of higher education diplomas awarded on completion of professional education and training of at least three years' duration." Let us call the thing the "EC Diploma Directive" or by its abbreviated name "RAS."

In the words (English text) of our Dutch Ministry of Education and Science:

> "The aim of the RAS is to protect the rights of people who have followed a course of education or training for a particular profession to enable them to practice the profession in all European Community countries. This means that citizens who have been trained (under comparable conditions) to practice a particular regulated profession in one member state, will also be able to enter that profession in another EC country. The intention of this directive is to ensure within a short period of time that a person who holds an appropriate higher education diploma from one member state cannot be refused entry to a regulated profession in another Member State on the grounds that he or she does not hold a certificate from the Member State where he or she wishes to work."

In my own words: it is no longer permitted to refuse a citizen of any EC country access to a "regulated profession" in another EC country where he or she wishes to work, if the professional involved has been educated and trained appropriately.

About the concept "regulated profession" our Ministry made the following remark:

> "The directive applies to those professions known as regulated professions. In the Netherlands this means those professions for which a higher education diploma is required by or subject to law to gain admittance. Regulation in the Netherlands takes place only by statutory means. Conversely, in the United Kingdom and Ireland regulation of the professions is generally left to the 'Chartered Bodies.' These are private professional institutions recognized by the government which set the standards for admittance to the professional group."

The aim of RAS is obvious: to promote the free flow of professional human capital over the borders between the various member states, taking away any obstacles to fair competition.

The actuaries thought it wise to help the European authorities somewhat by making clear which colleagues in other countries of Europe they themselves considered as really equivalent. They thought that it might be better to lay down an implicit definition of "actuary" before some European civil servant might design a lengthy, precise but unworkable formula for "actuary …"

However, the legal position was not the same in all countries involved. All member states developed their own mix of laws and customs. Some countries do not possess a written constitution but happen to have detailed charters for regulated professions. Other nation states have lengthy written constitutions, spelling out in detail every citizen's rights, but fail to define the borders of competence for all professions that might have been regulated. So in some countries the definition of an actuary is quite clear: in the United Kingdom such a man or woman simply has to be a Fellow of the Institute of Actuaries or the Faculty of Actuaries.

In the Netherlands the formal definition is somewhat vague, although in practice the actuary is easily recognized: with 99% probability a member of the "Actuarieel Genootschap." In our country the Regulatory Supervisor has

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the last word in recognizing somebody as "actuary" or in rejecting him or her as such.

That is, in so far as the certifying of annual accounts of insurance institutions and the passing of actuarial judgments, required by law are concerned. In practice the Supervisor will be alarmed by an effort of a nonmember of AG to act as an "actuary." But according to Dutch law it could decide not to raise objections in such a case, based on the conviction that the individual involved has the skills and experience needed. That exceptional approval might be granted if an econometrician, well-versed in non-life actuarial methods, decides—after many years of experience—to sign actuarial statements for a company, or if an experienced but quarrelsome actuary decided to withdraw from the professional association.

So in the strict sense of the word the Dutch actuarial profession is not a regulated one: everybody from outside our country is entitled to work here and sign official documents, requiring an actuary's signature unless the Supervisor objects to his or her activities.

At the same time, it is clear that in both examples given here, the U.K. and The Netherlands, membership in the relevant professional bodies (Institute or Faculty overseas and AG here) is an important asset and is more or less the proof that an actuary is recognized as being competent, whatsoever the country of origin and actuarial education.

Aware of the different legal environments of the profession in the various member states, the actuarial associations decided to design a procedure for mutual recognition of their respective members, in order to remove obstacles to entry in the respective marketplaces, maintaining some safety guarantees with regard to the professional qualities and attitudes of those working in a "host member state."

The general ideas behind the agreement were simple and straightforward:

- Do not focus on differences between actuarial education in the various countries, instead assume that all European actuaries have reached roughly the same level of professional knowledge and expertise.
- Recognize the fact that an actuary from country A might not be aware of the details of the legislation in country B, and that he or she might lack some knowledge about the market and the local customs in country B.
- Accept the European "principle" of the desirability of free flow of goods and services, so that there should not be any artificial barriers putting obstacles in the way of such flows; actuaries of all member countries should have access to the whole European internal market.

One might say that these had a solid base in actuarial thinking: a delicate balance between expected gains (equal and relatively easy access to the various national markets) on the one hand and "risk" (the possibility that damages might be caused by a foreign actuary practicing in a weak area of his professional expertise, due to differences in actuarial education between countries A and B) on the other hand.

So the actuaries active in the Groupe Consulatif, the organization of actuarial associations in the countries of the European Union, and their colleagues in their associations who proved to be willing to sign the Agreement were not the "risk averse" kind. A surprising attitude perhaps, in the eyes of the general public. However, one should not forget that at the time the gradual "convergence" in the actuarial profession in Europe was on its way: the Groupe Consulatif has been in existence for about twenty years and contacts between colleagues from various countries were growing. And so was the conviction that most "local" actuarial associations could be trusted in their sincere efforts to guarantee the minimum professional knowledge of their individual members. The progress being made in developing a common standard for actuarial education illustrates that this long-term optimism is well founded.

Of course there are differences. If I am confronted with a difficult mathematical problem and I can choose between a Swiss or Scandinavian colleague and English colleague I might be tempted to seek the advice of the former. And if the problem is related to managing assets and liabilities, I probably might call the UK colleague.

But these differences of focus and specialized interest do not contradict the fact that the basic techniques—both in nature and level—will be familiar to all.

So in 1991 Belgians, Britons, Danes, Dutch, French, Germans, Greeks, Irish, Italians, Portuguese, and Spaniards created the Agreement for Mutual Recognition, which included 13 associations of actuaries in total. The numbers seem to be somewhat confusing. At the time the European Communities contained 12 countries, consisting of those mentioned above, plus Luxemburg, which did not have an actuarial association of its own … then. Now it has. So there were 11 countries in 1991 represented by 13 associations and one small country not yet represented at all.

Now in 1997, a renewed agreement is on the table, with a new list of participating associations. New members include: Austria, Finland, Luxemburg, Sweden, Norway, and Iceland. At the moment the associations are accepted by the Groupe, as new affiliates, from countries that signed a treaty for (immediate or later) entry into the European Union, or that belong to the non-EU part of the so called European Economic Space.

Back to the contents of the agreement itself. What do we, as "native" associations, promise to our colleagues? In short:

- To designate a class of members who can be regarded as "full members" and to maintain a list of such members.
- To provide for admission as "full member" any actuary who is a full member in another state who wishes to "pursue actively the profession of actuary" and in a host state who applies for a membership, with the following conditions:
  a. No further requirements as to training or examinations except …
  b. Either an adaption period not longer than one year or an "aptitude test" regarding legislative requirements and commercial practice in the "host country," whereas
  c. All rights, duties, obligations and subscriptions shall be the same (in particular the same Code of Conduct will apply)

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- To impose on all full members:
  a. To apply for membership of the "host association" if being employed in another member state, and
  b. Not to undertake duties for which the relevant current knowledge and experience is lacking (in particular, related to law and commercial practice).

The last point is an echo—or better, a precursor, forerunner—of one particular obligation from the more elaborate Code of Conduct, signed in 1993 by the same set of actuarial associations affiliated to the Groupe Consulatif, and since then adopted as the standard code of conduct by the International Forum of Actuarial Associations (founded in 1995).

Of course the personal self restriction required—not to undertake any professional activity for which knowledge or experience are not up to the level needed—is a key element. It is related directly to professional integrity.

Both the European Code of Conduct and Agreement are "law" for all members of any actuarial association. In the case of the AG this is illustrated by the fact that these rules have been accepted formally in the AG Members' Meetings in April 1993 and February 1991, respectively.

So all problems related to mutual recognition have been solved? No difficulties left? Actuaries, statisticians, and even human beings in general do know that "stochastic" plays a role in life. And so it is in the practice of the relationship between the actuarial associations.

"Panta rhei," everything flows, some Greek philosopher said. This rule even applies to actuaries and their tastes.

However, there is an alternative hypothesis possible: individuals have to cope with memory deficiencies, and collective sets of individuals—such as actuarial associations—have the same difficulty, perhaps even to a larger extent. New presidents, new boards, new "membres titulaires" and all that.

What Is the Case?

A renewed discussion about the use of professional titles (such as the abbreviations FIA, FFA, AAG) by actuaries admitted as full members by force of the Agreement is taking place. An exchange of thoughts that sometimes takes the shape of a new Anglo-Dutch War (number five, after a long pause). The Dutch position now, however, is better than in the 17th and 18th centuries—we are supported by other forces from continental Europe and I cannot escape the impression that the English side of the front shows some division lines. And to the north of Hadrian's wall, the Scots seem to sympathize with the continental actuaries.

As I described earlier, the Agreement has been the result of a combination of the EC conviction that obstacles to free competition should be removed and the associations' willingness to incur a risk with regard to the assumed equality of vocational training of actuaries throughout Europe.

"Both the European Code of Conduct and Agreement are 'law' for all members of any actuarial association."

The first principle, free competition, resulted quite logically in this clause of the Agreement:

> "The rights, duties, obligations and subscriptions of members admitted under (a) shall be the same as those of other full members, and in particular they shall be subject to the same code of conduct as full members of the association to which they are admitted under this Article."

In my view, these words cannot be misunderstood easily; discrimination in any form between the "highest level" subset of professional people, the "full members" to be listed by the Associations, is ruled out as contradictory to the spirit of free competition and free access to national markets.

So, if a national association has arranged for the use of titles such as AAG or FIA, the natives will have to grant this privilege to all members, the invaders from overseas included—a matter of principle, not of convenience, perhaps. Competition means either no privileges to anyone or the same privileges to all, assuming a more or less "homogeneous set" of competitors. And that is exactly the core assumption of the agreement.

Of course I understand the bitter rivalries between English actuary A passing all the Institute exams and becoming an FIA just before mid-life crisis, and the continental colleague B who moved from Cologne to London as an actuary around age 30 and to whom the title FIA will be granted after one year or so.

The situation becomes even worse if the British government decides to adopt Masastricht's Social Chapter, so that even a compensating lower wage is no longer possible. Competition on equal terms for all, again. If we are to play the capitalist—free competition game—then a level playing field is the least we may hope for.

During the April 1997 meeting of the Consulatif Group's "Freedoms and General Purposes Committee," it was decided that a small subcommittee will try to find a way out, reassuring the English without annoying the continentals and their friends. These words must have given you an impression of the standpoint I am going to defend as a member of that subsubcommittee.

Am I saying that the cooperation between the European Actuarial Associations is now at stake, just because of the use of those silly three-letter abbreviations? Of course not.

Do I deny the important contribution made by the Institute (and Faculty) to the development of the European actuarial profession and its institutions? Do I tend to forget their generosity in subsidizing the Groupe's activities (until this year, when there will be a balanced budget at last)? Again, of course not.

But free competition means removing all redundant or less relevant differences between competitors, in so far as

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possible. Some differences will remain, and one of those will certainly favor the native speakers of English. Actuaries in continental Europe, and in many other countries worldwide, will have to live with the fact that the Anglo Saxons have won at least the language part of the competition.

Actuaries of the world compete for jobs and assignments in all states and regions. In Rome, do as the Romans do. In London, stick to the customs of the English tribe, the use of their abbreviated titles included. We will find a solution to that small, but important, problem, as we did in the case of other even more difficult questions.

Wilhelm S. Meijer is Past President of Het Actuarial Genootschap (HAG) (the Actuarial Society of Netherlands).

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A Call for Papers

Actuaries are invited to submit papers for possible publication in the *Journal of Actuarial Practice*, an international refereed journal. Papers may be on *any* subject related to actuarial science or insurance; they do not have to contain original ideas. Preference will be given to those papers intended to educate actuaries on the methodologies, techniques, or ideas used (or can be used) in current actuarial practice. The journal also accepts technical papers, commentaries, and book reviews. However, all articles must have some relevance to actuarial practice.

Please send an abstract of the paper by Friday, May 1, 1998 and five (5) copies of the completed paper by Friday, June 19, 1998 to:

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The Role of the Appointed Actuary in the United Kingdom

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This article provides a broad overview, in nontechnical language, of the special role of the Appointed Actuary in U.K. life companies, that is, insurance companies which transact long-term business.

U.K. legislation requires every life company to appoint an actuary, known as the Appointed Actuary, to undertake certain duties. This requirement covers not only companies based in the U.K. but also U.K. branches of companies established outside the European Union. Although the detailed legislation is somewhat different, the main elements of the Appointed Actuary system also apply to the larger Friendly Societies.

The Appointed Actuary and the Supervision of Life Companies

U.K. legislation requires that an investigation shall be made into the financial condition of a life company each year by its Appointed Actuary. The Appointed Actuary will report to the Directors of the Company on his or her findings and an abstract of the Report, prepared in a prescribed format, will be included in the Company's statutory Annual Returns to the Department of Trade and Industry (DTI), which is the governmental department responsible for the supervision of life companies. The returns will give particulars of the valuation methods and assumptions used and will include a certificate in which the Appointed Actuary certifies:

- that the data used were adequate for the valuation of the Company's liabilities
- that the actuarial value placed on the liabilities under the Company's policies is adequate
- the amount of the minimum solvency margin which the Company is required to maintain
- the adequacy of the premium rates on which new business is transacted
- that relevant guidance issued by the Faculty of Actuaries and Institute of Actuaries has been complied with.

If the certificate cannot be given without qualifications, these must be stated and explained.

The process of valuation, reporting, and certification by the Appointed Actuary enables the DTI to monitor the Company's financial progress without carrying out its own detailed investigations.

Although the annual investigation forms one of the Appointed Actuary's main statutory duties, the role is much broader in practice. In its widest sense the Appointed Actuary's role is to monitor the ongoing financial well-being of the Company on behalf of the Board of Directors and, in particular, to satisfy himself or herself as to the solvency of the Company at all times and to advise the board of any points of potential concern that may arise and how they might be addressed. As it has developed this wider role has come to be regarded by the supervisory authorities as one of the control features of the prudential supervision of life companies.

In recognition of the Appointed Actuary's wider responsibilities, therefore, he or she is supported by the authorities and the Profession in a number of ways. For example, the Appointed Actuary is entitled to consult the DTI or its advisors, the Government Actuary's Department. Equally, these departments may raise with the Appointed Actuary points arising from his or her Valuation Reports.

The Appointed Actuary and Professional Conduct

The Faculty of Actuaries and the Institute of Actuaries require all members to conform to their Memorandum and Advice on Professional Conduct, which is backed by disciplinary procedures.

Before assuming the relevant duties, a prospective Appointed Actuary must obtain from the Faculty or Institute a certificate authorizing him or her to act in this capacity. Certificates are issued

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