



SOCIETY OF ACTUARIES

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The IAA and Global Financial Risk

By Katsumi Hikasa

Since its restructure in 1998 into an association of actuarial associations, the International Actuarial Association (IAA) has steadily strived to make its presence felt in the global financial community. Facing the rapidly changing environment, simply maintaining the status quo is not sufficient by any means. In order to be a fruitful organization in the future, the IAA needs to meet the new challenges and respond to the changing environment, which is why on Nov. 4, 2008, the IAA adopted a Strategic Plan that includes the following vision and mission statements:

The actuarial profession is recognized worldwide as a major player in the decision making process within the financial services industry, in the area of social protection and in the management of risk, contributing to the well being of society as a whole.

The mission of the IAA, as the worldwide organization of actuarial associations, is:

- *to represent the actuarial profession and promote its role, reputation and recognition in the international domain; and*
- *to promote professionalism, develop education standards and encourage research, with the active involvement of its member associations and sections, in order to address changing needs.*

The adoption of the strategic plan, including these vision and mission statements, was timely as it came on the cusp of the global financial crisis. What a perfect time for the IAA to implement its vision statement by identifying the management of risk as a key area of actuarial expertise.

Immediately following the adoption of this plan, the IAA created an Advisory Task Force on Risk Crisis, reporting to the Executive Committee. The role of this Task Force is to provide advice and guidance to the sub group of the IAA Enterprise and Financial Risk Committee. In accordance with the IAA's vision statement, the sub group was tasked with preparing an appropriate reaction by the IAA on behalf of the global actuarial profession to the financial crisis we now found ourselves in.

The expected outcomes were:

- a public statement to be issued in a timely manner targeting the Financial Stability Fo-

rum, the governments, the regulators and the major financial institutions focusing on the potential contribution of the actuarial profession to the management of risk in the financial services sector; and

- a communication program comprising a set of documents that could be used by the IAA, its member associations and actuaries in general over the next 12 months to promote the actuarial profession as a qualified major player in the management of risk in both the financial (bank and non bank) and the real sectors

The IAA, representing the global actuarial profession, sees many lessons being learned from the current crisis, which has been deeply affecting not only the financial industry, but also the entire world. Witnessing the crisis, one would wonder whether such a crisis could have been prevented if the expertise of actuaries had been applied to the wider financial fields and utilized effectively in the decision making process of financial institutions. This is a hypothetical question to which we might never find an answer, but we firmly believe that the actuarial profession is equipped with just the right set of technical skills and professional discipline to better deal with financial risk management within any kind of institution or grouping of institutions. Actuaries, experienced in measuring and managing risk, are suggesting potential reforms, improvements and solutions applicable across the financial services sector.

In other words, the risk crisis represented a great opportunity to promote the actuarial profession and to educate on the important role actuaries can play in the management of risk.

The first part of the mandate was completed on Feb. 10, 2009 with the publication of the paper

entitled “Dealing with Predictable Irrationality—Actuarial Ideas to Strengthen Global Financial Risk Management” and an accompanying worldwide news release.

As one of the highlights of this paper, the IAA has proposed four measures to be taken in order to prevent future financial crisis. They are:

- Introduction of more counter cyclical regulatory arrangements
- Creation of Country Chief Risk Supervisor role
- Wider use of comprehensive risk management concepts in banks and non-regulated sector
- Improved use of ERM & risk governance

Since the release of the paper, presentations and representations on these issues have been made on behalf of the actuarial profession to:

- (a) various national regulators of banks, insurers and pension funds,
- (b) the International Association of Insurance Supervisors,
- (c) the Joint Forum (an international group of banking, insurance and securities markets regulators),
- (d) the Social Insurance, Pension and Provident Fund Conference “Pensions in Crisis” held in Cyprus in March
- (e) the U.K. Board of Actuarial Standards
- (f) the U.S. House of Representatives Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, and
- (g) the Financial Crisis Advisory Group of the IASB/FASB.

Independence and Role of the Risk Function

The IAA believes that risk management must be viewed as integral to the operation of the business and not just as a cost or regulatory requirement

Strengthening risk management functions will result in growing professional responsibilities for actuaries, risk officers and their teams

Risk teams require:

Freedom to take an objective view that may differ from management's based on unrestricted access to the same information	A culture of mutual understanding and respect between line management and the risk function across an entity	Differing views on material matters must be reported to the board and be transparent to the prudential regulator	Risk managers should have professional and disciplinary standards (already required by the IAA for the actuarial profession)
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Prevention of future financial crises

<p>The G 20's common principles for reform:</p>	<ul style="list-style-type: none"> • Strengthen transparency and accountability • Enhance sound regulation • Promote integrity in financial markets • Reinforce international co-operation • Reform international financial institutions
<p>Actuaries believe additional measures are needed:</p>	<ul style="list-style-type: none"> • Introduction of more counter-cyclical regulatory arrangements • Creation of Country Chief Risk Supervisor role • Wider use of comprehensive risk management concepts in banks and non-regulated sector • Improved use of ERM & risk governance

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In addition, the IAA Task Force has been monitoring the relatively rapid political and regulatory developments internationally in response to the global financial crisis. These began with the declaration of the G20 immediately following its meeting on Nov. 15, 2008, to take measures to strengthen transparency and accountability in financial institutions, enhance sound regulation, promote integrity in financial markets, reinforce international co-operation and reform various international financial institutions.

The most significant outcome of this initiative is that the four recommendations that the IAA made in the paper are reflected in the proposals adopted by the G20 in April. This is a testament to the role and influence of the actuarial profession and an indication that we are on the right track towards realizing our vision.

Thanks to the initiatives taken by IAA member associations, the paper received excellent media coverage in some countries, making the presence of the IAA and of the actuarial profession known by the world outside the actuarial community.

It will not be an easy task by any means to continue to accomplish the new objectives set forth by the IAA. However, it is important, not only for the future of the IAA, but also for the so-

ciety in general. Simply put, the IAA has the obligation to “contribute to the well being of the society as a whole” by implementing the strategic objectives to achieve the vision and mission as stated in the Strategic Plan.

The second part of the Task Force’s mandate, the development of a communication plan comprising documents for use by actuarial associations and actuaries, is now in full swing. Discussions will continue at the IAA meetings in Tallinn at the end of May towards finalizing some of this documentation.

The impact of the Task Force on Risk Crisis will no doubt be felt for many years to come in many different ways. Actuaries and their clients will need to continue to be alert to both risks and opportunities (including opportunities for the actuarial profession) that will emerge as a result of the work of the Task Force.

I would like to take this opportunity to stress that any goals that the IAA would like to achieve could not be accomplished without the firm continued support of the local actuarial associations and the contribution of their individual members as volunteers in their specific areas of expertise.

Let’s face this challenge together! □

Call for Papers—Living to 100 Symposium IV

The Society of Actuaries will present its fourth triennial international Living to 100 Symposium in January 5-7, 2011 in Orlando, FL. We encourage anyone interested in preparing a paper for the symposium to get an early start on pursuing the research and analyses. We are seeking high quality papers that will advance knowledge in the important area of longevity and its consequences. To learn more, visit www.soa.org, click on Research, Research Projects and Calls for Papers and Data Requests.